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THE EFFECTIVENESS OF U.S. EXPORT ASSISTANCE CENTERS

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The Effectiveness of U.S. Export As...

HEARING

BEFORE THE

SUBCOMMITTEE ON PROCUREMENT, EXPORTS, AND
BUSINESS OPPORTUNITIES

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

WASHINGTON, DC, JULY 25, 1996

Printed for the use of the Committee on Small Business

Serial No. 104-90



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THE EFFECTIVENESS OF U.S. EXPORT ASSISTANCE CENTERS

THURSDAY, JULY 25, 1996

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON PROCUREMENT, EXPORTS,
AND BUSINESS OPPORTUNITIES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10 a.m., in room 2359, Rayburn House Office Building, Hon. Donald A. Manzullo, (Chairman of the Subcommittee) presiding.

Chairman MANZULLO. Today, the Subcommittee will examine the effectiveness of the relatively new U.S. Export Assistance Centers or USEAC's. Congress pushed this idea as part of the 1992 Export Enhancement Act.

Now is an appropriate time to have a progress check.

Both the General Accounting Office and the Inspector General of the Commerce Department have completed comprehensive reviews of the USEAC system. As expected with any new venture, there were ups and downs. We're not here to play Monday-morning quarterback. Our aim is to work constructively with Commerce, Ex-Im bank, and SBA to see how we can better serve small business exporters.

I believe the audits conducted by the GAO and the IG have played a very constructive role in moving the USEAC's closer to the vision of the authors of the Export Enhancement Act. In fact, Ms. Fitz-Pegado, I would commend you that you took the GAO report, based your written remarks, and used that as a goal and a vision as to where you want to take USEAC. Thus, the GAO report served a tremendous purpose even before this hearing started this morning. So, I commend you for that.

Most of the problems pointed out by the audits focus on lines of authority, responsibility, and budget constraints. My long-term dream is to have one day a Department of Trade, which will have a clearer mission mandate and a true unified export promotion budget.

That is not why we're here today. Our first set of witnesses will be the auditors from the GAO and the IG of Commerce. Then we'll proceed to Agency witnesses, who will have the opportunity to comment on the reports. Our ranking minority Member, Mrs. Clayton, is not here yet for an opening statement.

Mr. Sisisky, did you have an opening statement?

Mr. SISISKY. No, I didn't.

Chairman MANZULLO. The first witness is Ms. Hecker, the Associate Director of the International Trade, Finance and Competitiveness Division of the GAO.

**TESTIMONY OF JAYETTA HECKER, ASSOCIATE DIRECTOR,
INTERNATIONAL RELATIONS AND TRADE ISSUES, GENERAL
ACCOUNTING OFFICE, WASHINGTON, DC**

Ms. HECKER. Good morning, Mr. Chairman.

Chairman MANZULLO. Welcome. If you could try to limit your remarks to 5 or 6 minutes or less I would appreciate it. When you see this yellow light flash, please wrap it up because what I want to do is get through your testimony, then leave plenty of time for questions and answers, including dialogue that the members of the panel may have among themselves. Go ahead, please.

Ms. HECKER. Fine, Mr. Chairman. Thank you. I'm pleased to be here. Before I begin, I want to thank the staff that's been working on this for a considerable amount of time; not only Mr. John Hutton, but Mr. Joe Natalicchio, who has really dedicated himself and given real leadership not only to this work but also our work for you on the Department of Commerce.

I'll start by putting some background on the table. As you know in the early 1990's, there were persistent concerns about the fragmentation of the Federal export promotion effort and the absence of a real strategy or priorities. That led to the congressional legislation in 1992, where there was the first recommendation to explore one-stop shops.

Anticipating continuing congressional interest, we set out to monitor implementation of these one-stop shops. Initially there was very limited information being generated on what they were doing, how they were doing it, or what kind of performance and results there were. So, the methodology we developed was to systematically review the pilot sites, which at that time had been in operation about a year and a half, and do a systematic review talking to all the staff in those sites, talking to a number of the partner Agencies, and interviewing the best clients or customers, as identified by the Agencies, who were getting the services of more than one Agency.

Our basic bottom line is that while we observed some progress in the efforts of individuals to integrate the delivery of services and even heard about some progress being made in improved customer service, we observed numerous operational problems that seemed to be impeding the realization of the concept and a fuller integration of the staffs.

Let me note, and I think it's an important point to emphasize, that initially there was a real emphasis on a pilot strategy as recommended by both GAO and the TPCC. There were supposed to be four quarterly evaluations to look at how the pilots were doing, what worked, what didn't, and how different kinds of approaches worked. It's our sense that the pilot approach was basically abandoned. There really wasn't a focus on learning from them. The decision was made about 6 months into the operation of those pilots to expand the network, and then all of the energy really seemed to go into expanding the network.

The focus that we retained, though, was looking at the four pilots. The new ones were being rolled out, but we kept the focus on how the initial four pilots were working, what some of the lessons learned might be; because there hadn't been a rigorous complete evaluation of the process and the progress and challenges presented by the four pilots.

Now, there were positive things that we found. Eighty percent of the staff believed that establishment of the USEAC's really did increase customer access to a full range of services. But the survey also indicated opportunities for improvement.

When we interviewed these best customers who the Agency identified as receiving services from more than one Agency, 30 percent of them had no recollection of being served by two Agencies. When we followed up on that, they said service by the second agency was so incidental and insignificant that they didn't believe they really dealt with more than one Agency.

In addition, we found that 40 percent of the companies who had been identified as these best customers said they found the second Agency on their own. They weren't getting referrals from the other USEAC partner, but rather they had found the second Agency on their own. This was confirmed in our interviews with some staff who said they didn't know enough about the other Agency. They didn't have enough confidence in their service to make those kind of referrals.

Basically, the main operational problems we identified with the pilots was that there weren't appropriate incentives in place to support staff from the three separate Agencies to work together. There was really no common client tracking system, which really reinforced a tendency for the Agency officials to operate more independently. Most importantly, there was no information on the cost of the centers and limited control by the directors, the budget, or procurement.

In fact, the financial accounting system at Commerce is so weak and archaic that it took 2 years before SBA and Ex-Im bank agreed to reimburse Commerce for common expenses because the accounting was so incomplete. Another significant result is that the cost of creating and maintaining the USEAC's still today remains unknown because of the weakness of the accounting system.

To wrap up, overall we agree with the need for integration and rationalization of Federal export promotion. The importance of that remains an objective. The centers are a useful concept and some progress has been made, but these operational problems have impeded realization of the concept. We have no assurance that we really are getting the most cost effective service for the limited Federal export dollar in the delivery of export services to clients.

That concludes my statement, Mr. Chairman, pleased to be any help I can with any questions.

[Mr. Hecker's statement may be found in the appendix.]

Chairman. MANZULLO. Thank you. Our next witness is Mr. Frazier.

Mr. FRAZIER. Thank you, Mr. Chairman, and members of the Subcommittee—

Chairman MANZULLO. Excuse me just a second. Mrs. Clayton just came in. Mrs. Clayton, did you have an opening statement?

Mrs. CLAYTON. I do.

Chairman MANZULLO. Could you withhold for a couple minutes? Thank you. Thank you.

Mrs. CLAYTON. Mr. Chairman, this morning the Subcommittee stands convened to discuss the effectiveness of the U.S. Export Assistance Centers, USEAC's. At issue is a General Accounting Office study; which found that, although the four original "pilot USEAC's" have been very effective in meeting the needs of its targeted customers—namely small and medium sized exporters—their effectiveness is somewhat hampered by the general inability of employees of the separate Agencies to act as a single unit. Consequently, GAO observed, among other things, that customers were not being referred to the other participating Agencies in a timely way and accordingly, employees sometimes duplicated each others' efforts. To remedy this effort, GAO has recommended three changes to the operational structure of UISEAC's.

Although these recommendations are significant, they do not signify a rejection of the concept of this program or its overall effectiveness. Indeed as was stated earlier in the report and testimony, they were somewhat complimentary of the performance of USEAC's, although, they went to great details to identify small errors.

Furthermore, many of the Agencies in question have already acted upon some of the recommendations of GAO or they are in the process of acting upon the GAO recommendations. For example, in response to GAO concern regarding allowing USEAC directors more authority over evaluating staff for their working together, both Commerce and SBA have already agreed to allow USEAC directors to provide at least 15 percent of staff performance rating. In this and in other ways, many of the Agencies participating in this experiment, have acknowledged the concerns of the GAO, and have acted to correct them.

From all accounts, this program is a vital part of the U.S. Export Promotion Policy. Originally designed to integrate the many different export and finance assistance programs operated by the Federal Government, USEAC's serve as a one-stop shop program in which the trade specialist from three Government Agencies, the Department of Commerce, SBA, and the Export Import Bank assist small and medium size businesses interested in exporting.

In this body, we often admonish Federal Agencies to learn how to do more with less and how to work together. Mr. Chairman, USEAC's are doing just that. They are an excellent example of Agencies working together in partnership with local and State government to leverage their resources in order to better enable American businesses to compete in the global marketplace. Although they are not a perfect experiment, USEAC's—I would also suggest—are an innovative step toward providing, in a single convenient location, hands-on export marketing, and trade finance support for small- and medium-size companies.

Therefore, Mr. Chairman, while we should continue to exercise our due diligence in our oversight responsibility, we must also take the opportunity to show support for programs that are meeting their objectives.

By all account, this particular program is meeting it. By the same token that is not to say we should not want to improve the program and make it better. We should find opportunity to show both its strengths and its weaknesses and not to glorify its weaknesses. Certainly we all want to make this program, which is a good program, better to serve all Americans both medium sized and small businesses.

Now, I must admit, Mr. Chairman, I want this in the record. In a political environment which has become infected with extraordinary partisanship, when my staff first informed me that this hearing was scheduled, I was, to say the least, concerned. I shared however, my concerns with you many times and over many conversations.

I did not believe the proximity to August recess provided us ample opportunity to examine and respond to the GAO study. I must say that you made an effort to provide the GAO study to us. As a result, I must say you relieved most of my initial concerns, and I appreciate your effort to work with me. I would say further, Mr. Chairman, it was constructive as we attempted to address this issue in a bipartisan spirit. We should do this together and not after the fact. Thank you for allowing me these words.

Chairman MANZULLO. Thank you, Mrs. Clayton. Mr. Frazier.

**TESTIMONY OF JOHNNIE FRAZIER, ASSISTANT INSPECTOR
GENERAL FOR INSPECTIONS AND PROGRAM EVALUATIONS,
DEPARTMENT OF COMMERCE, WASHINGTON, DC**

Mr. FRAZIER. Thank you, Mr. Chairman and members of the Subcommittee. I am pleased to be here today to discuss the results of the study that we completed and subsequently issued a final report on in March of this year. The study is entitled "U.S. Export Assistance Centers Offer Reason for Optimism, but May Fall Short of Expectations."

It is important to point out that in late 1994, we decided to perform an early assessment of the development and roll-out of this multiagency USEAC program, in part, because we thought that it was such an important undertaking for the Department. As one might expect from a multiagency undertaking of this magnitude, there were some difficult issues in making the USEAC concept a reality, such as the logistical problems associated with relocating people, getting the centers physically opened, uncertain staff and budget resources, and developing a program that so many varied and interested parties could accept and support.

Our early evaluation of the program concluded that some of these issues were handled very well, but others were not. Among the very positive observations we made during our review, we found that under the primary leadership of the US&FCS, and with a lot of support from SBA and Ex-Im bank, a great deal of effort, dedication, and creativity was put into the program. Too often people don't get the credit for the amount of work that goes into an undertaking of this magnitude. We applauded all three Agencies for their positive contributions.

Using the four pilot sites, we thought, was a good initiative. It was important to test some of the concepts. Pilots are intended to show what will work and what will not work. But probably the

most important and positive observations that gave us cause for optimism—i.e., we put this in the title of our report—were the views expressed by so many of the U.S. exporters that we interviewed and the staff and many of the people who had been in the exporting business for so long, that the USEAC's did in fact offer a greater opportunity for a better, more coordinated, Federal effort.

In more than a decade of individual inspections of US&FCS offices, we frequently found that there was a major void in terms of cooperation and coordination between the Federal Trade Agencies especially in the trade finance area. So, the fact that the people were so optimistic that this one stop center program was going to make a big difference was one of the most important findings in our study.

On the other hand, we identified a number of issues and problems that we felt warranted management's attention. Our objective there, again, was to bring them to the attention of management as early as possible. That as the program continued to evolve, changes could be made.

We had some concerns, very definitely. We were concerned, for example, that the early training programs of the US&FCS, SBA, and Ex-Im bank were not well coordinated, and did not properly prepare some staff to carry out all of the functions of the center. Joint counseling and "team building" by the three Agencies got off to a very slow start. We think this was one of the most important things. It's something that's intangible, but absolutely crucial to the success of the program.

Some management, leadership, and staffing problems surfaced at the pilots that weren't addressed as quickly as we think that they should have been. Fortunately though, many of the problems that surfaced at the pilots were being addressed. We worked very closely with management to try to bring these to their attention.

One of the primary concerns, however, that we had was the issue of the "hub and spoke." That was a concept that involved trying to deal with the shortage of resources, trying to better leverage the resources. We were concerned that during the pilot testing, this important component of the system was not tested to the extent that it should have been.

Our concern is that if you think that there are going to be one-stop centers "across" the United States—in terms of a physical one-stop center—that's not necessarily the case. That was one of our primary concerns. We were particularly concerned about that because there were other things that were happening at the same time.

One, ITA, which is the US&FCS's parent organization, was not providing the promised level of resources. At one point we were told that there was a shortage of 40 positions in the domestic field staff. SBA appeared uncertain of its ability to deliver at a certain point in time. For some of the earlier people who the SBA put into the program, we were concerned whether they were really qualified to do the trade finance work. In Ex-Im bank, we were concerned whether they were able or willing to make the kind of internal adjustments in their regional offices to reassign staff.

Again, lots of corrective measures were taken during and after our review. We were very pleased with that. We know, for example,

that US&FCS has provided some additional resources to strengthen the USEACS. SBA expects—we were told in the last 2 weeks—to fulfill its original staff commitment. A basic system for identifying and recording joint problematic accomplishments has been put into place, and improvements have been made to the training programs and a number of other areas.

This concludes my statement, and I'll gladly answer any questions you may have at the conclusion.

[Mr. Frazier's statement may be found in the appendix.]

Chairman MANZULLO. Thank you very much, sir. Our next witness is Ms. Lauri Fitz-Pegado.

Do you recall, Lauri, way back in the beginning of this Congress where you were given the dubious task of drawing the export promotion agency chart? Do you remember that?

First it was a hub and spoke, and then it was a box, and then it went to a bulls-eye model. I said the goal of the chart is to be understood by my 12-year-old son. That chart served as a springboard for trying to get the various Agencies coordinated together so we could take a visual look as to those programs existing in the Federal Government, and then try to take the best of the best and integrate them into the USEAC's. You did a fantastic job on that chart.

Ms. FITZ-PEGADO. Did your 12-year-old understand it?

Chairman MANZULLO. Well, he could understand it. He understands those concepts. Mr. Sisisky, did you understand the chart? But over the last year and a half, I'm beginning to understand how these Agencies work, and that bothers me. But with that, please go ahead and give us your testimony. We look forward to hearing it.

TESTIMONY OF LAURI FITZ-PEGADO, ASSISTANT SECRETARY AND DIRECTOR GENERAL, U.S. COMMERCIAL SERVICE, DEPARTMENT OF COMMERCE

Ms. FITZ-PEGADO. Mr. Chairman, I'd like to thank you, Representative Clayton, and the members of the Subcommittee, for providing me with this opportunity to speak to you about one of the true success stories in Government, the U.S. Export Assistance Center Program. I would ask that my complete statement be made part of official record.

Let me take a moment to say a special word of thanks to you, Mr. Chairman, for taking time out of a busy schedule to attend our Rockford, Illinois, District Export Assistance Center opening on July 15. Your presence and words of commendation were greatly appreciated by our staff and Illinois exporters. I am pleased that you were able to hear firsthand from our clients that they value the services of the Export Assistance Centers.

As you are well aware, exports are essential to the economic strength and security of this Nation. In fact, exports now account for almost one-third of real, U.S. economic growth and are expected to grow faster than overall economic activity for the remainder of this decade. Exports supported an estimated 11 million American jobs in fiscal year 1995 alone.

The Clinton administration recognizes the importance of exports and the need to help American businesses, especially small companies, compete in an increasingly competitive global marketplace.

Toward that end, 2½ years have passed since we've opened four pilot centers, and I'm pleased to tell you today that we have not only achieved the goals first set out by Congress and the Trade Promotion Coordinating Committee, but we have expanded on that original concept, to the benefit of American exporters.

By fostering strong partnerships with Federal, State, and Local Trade Promotion Organizations, working to modernize our communications and client management systems, taking advantage of technological innovations, and strategically placing our resources where they can serve our clients most effectively; we are in the process of creating a truly integrated national export assistance delivery network.

The following statistics should give you a clear sense of the impact the Export Assistance Centers have had on our programs thus far. In spite of up to a 20 percent reduction of Commerce staffing allocations within these Export Assistance Centers and an ongoing hiring freeze over the past 2 years, we've managed to increase our export actions by 80 percent. Export actions represent export sales that our clients attribute to the assistance that we provide.

Mr. SISISKY. What percent?

Ms. FITZ-PEGADO. Eighty percent, sir.

Mr. SISISKY. But before that.

Ms. FITZ-PEGADO. Twenty percent staff cut. More than 92 percent of the 395 clients responded to our 1995 Quality Assurance Survey, were either satisfied or very satisfied with the quality of the services they received at our offices.

As of March 31, 1996, we achieved 44 percent of our ambitious fiscal year 1996 export action goals in spite of a 6-week Government shutdown last winter.

In record time in January 1994, we opened four pilots. Rather than simply resting there, we began working on the TPCC directives, and "to identify 10 new sites by June 1994 and establish them in calendar year 1995." We also work to meet the Committee's recommendation that the participating Agencies conduct extensive evaluations to "Help the TPCC evaluate operational startup issues, concerns, and problems."

While selecting the sites for the next round of centers, we recognized that the needs of our clients demanded something more fundamental than merely collecting—co-locating Federal partners in a collection of individual offices. Instead we set out to create a network that would enable us to bring the consolidated services first envisioned by Congress to the greatest number of American businesses possible. To do so, we created the regional hub and spoke system designed to effectively service regional trading areas. With interagency U.S. Export Assistant Centers serving as the hubs and smaller Commercial Service District Export Assistance Centers as the spokes, we have expanded significantly our accessibility to the business community.

Each Export Assistant Center offers one-on-one counseling to businesses with export potential, particularly small and medium sized ones. Commercial service trade specialists work with firms to

determine their export potential and to find new markets and plan market entry strategies based on their experience and commitment to exporting.

We welcome the guidance of the GAO and the Inspector General and fine-tuning our operations and improving upon successful operations.

Let me summarize the GAO recommendations and the progress we've made thus far. We've been asked regarding performance appraisals, and we have responded that Commerce and SBA staff have already agreed to allow USEAC directors to provide at least 15 percent of staff performance ratings regardless of Agency or affiliation. We've also been asked about a customer—

Chairman MANZULLO. We have to vote. I want to come back and give you a little more time to respond to these three particular directives that were in the GAO report, in all fairness to you. I just want to give you more time, because this really goes to the heart of some of these observations of the GAO report.

I understand that we have a series of votes. So, we're going to recess here, run over to vote on three amendments, and we'll be back in about a half an hour.

Ms. FITZ-PEGADO. Thank you.

Chairman MANZULLO. Thank you.

[Recess.]

Chairman SALMON. All right. I would like to reconvene this Subcommittee hearing.

Ms. FITZ-PEGADO. Thank you very much. I was about to go through the three principal recommendations and how we have addressed them. Before I do that, I'd just like to say that this type of system of three Agencies with separate cultures coming together in this short order is unprecedented, and it has truly been a pleasure for me to be associated with this process.

We are the first to say that there is much work to be done. But none of the problems that we have identified or have been identified by the IG or GAO has been seen as disabling. That's indicated by the results that I discussed before the break.

As I was saying, we welcome the guidance of GAO and the Commerce IG's office in fine tuning our operations and improving upon the success of these operations to American exporters. Based on its review of our operation in Spring 1995, the GAO asked the participating Agencies to address three specific recommendations for improving the EAC.

I'd like to summarize how we've done that. The first recommendation had to do with the USEAC directors input into USEAC staff performance appraisals. Commerce and SBA staff have already agreed to allowing USEAC directors to provide at least 15 percent of USEAC staff's performance rating regardless of Agency affiliation.

This proposal will take effect in fiscal year 1997. In addition as a first step to more comprehensive reviews, USEAC staff have proposed an upward feedback pilot, through which staff would have the opportunity to contribute to the evaluations of USEAC directors rating them in their ability to inspire team work, among other things.

This evaluation is based upon a unified strategic plan for each USEAC coordinated by all the Agencies and implemented by all three. The semiannual site directors' meetings discussed many of these performance evaluations systems and really have been the source of coming up with the system.

The second evaluation—recommendation was regarding a customer tracking system. We recognize the importance of developing a systematic approach to sharing client information, an automated customer tracking system that contains information on clients and services provided to them by all Agencies in the EAC's.

After considerable research and a very close look at a pilot—a evaluation of Goldmine, which was a system that was being used by one of the partners—we selected a Lotus Notes communications platform—and I emphasize "platform," because it's really like railway tracks upon which we can run cars of all shapes and sizes.

We're looking at that as a platform to serve our client needs, and this particular system is compatible with off-the-shelf systems that other partners might be using, which was important to our selection of Lotus Notes.

The groupware application allows multiple users around the world to access and add to common documents and data bases sharing information quickly and efficiently. We expect to deploy the Lotus Note system to the first group of offices—and I should say domestic and overseas. It will not only be for the domestic USEAC's, it will be connected to our overseas network. We expect that by the end of the calendar year.

The third recommendation had to do with accounting systems and cost tracking of the USEAC's. In response to initial difficulties we faced in accurately tracking USEAC expenditures, we will adopt a flat fee system of reimbursement which we incorporated into a revised MOU and which we will implement in the immediate future.

We also began to develop a Lotus Note financial tracking system, which will ultimately provide document level detail of Agency and USEAC expenses. We do feel that we have an accountable system that we would be happy to share with any, and that our financial tracking does work and that this flat fee system will be effective across Agencies.

In closing, Mr. Chairman, let me give you an example of what this program means in real terms. David Spann, Director of the Delta USEAC in New Orleans recently wrote the following to describe the atmosphere and attitude in that inter-agency operation. He said that, "Established goals for individuals are considered goals for the USEAC as a whole. Therefore, staff performance is in part measured by the success of all of the parties in obtaining their goals. The Commerce Trade Specialist found that by helping the SBA Finance Specialist achieve his goals, export actions would follow and thus help them to meet their own goals.

"By the same token, the Finance Specialist found that by involving the Trade Specialist with loan activity, the demands for loans increased and helped him to obtain his goals. In the past 6 months the Delta USEAC has approved four export working capital program loans. All of these were companies, Commerce Commercial

Service Clients, whose growth was heavily impeded by lack of additional capitalization.

"In fact, one company would have lost \$70,000 in sales if that Export Working Capital Program had not been available. All members of staff work hard to identify themselves with the Delta USEAC rather than with one Agency. We are generally recognized as the Delta USEAC in the community by our partners and clients."

Though we've not achieved this level of integration at all sites, we have made great strides toward overcoming the distinct corporate cultures that made such coordination virtually impossible and unprecedented just 3 short years ago. I'm encouraged by this national network of Export Assistance Centers, and I am confident that we will soon bring a seamless export marketing and trade finance to business communities across the United States of America.

Thank you very much.

[Mr. Fitz-Pegado's statement may be found in the appendix.]

Chairman MANZULLO. Thank you very much. Our next witness is Mary Joyce of the SBA. You might want to bring that mike up to your mouth. You have to speak very closely to it. Thank you.

TESTIMONY OF PROFESSOR MARY N. JOYCE, INTERNATIONAL TRADE SPECIALIST, U.S. SMALL BUSINESS ADMINISTRATION, CHICAGO, ILLINOIS

Ms. JOYCE. Thank you, Mr. Chairman and members of the Subcommittee. I appreciate your asking me to be here today. I am Mary Joyce, and I work at the Chicago U.S. Export Assistance Center. I am glad to be able to describe SBA's role in the Export Assistance Centers.

As you know, SBA is a full partner in the Export Assistance Centers, all 15 throughout the U.S., Chicago being one of the first four. The SBA has worked hard with the U.S. and Foreign Commercial Service, as well as the Export-Import Bank to make sure that we offer a full array of services to all small business exporters.

The success of SBA and our partners, I believe, is our ability to be able to provide joint counseling and training to our customers. We have worked closely together with both the Commercial Service and Ex-Im bank to make sure that we provide companies with the export marketing and trade finance assistance that they need. This is all from a convenient one-stop location.

All of us at the USEAC understand that small businesses need both trade finance assistance and marketing information when they're venturing into new international markets. All of us have made sure that we are cross-trained in each of the Agency's programs so that when we are visiting a company, we can make sure that they understand all that we have to offer.

We both do joint counseling at the USEAC itself in downtown Chicago, and we also are very willing to go out to the business' site, whichever is more convenient for that small business. As a result we are able to provide seamless delivery of all of our services.

Not only are the three Federal Agencies in the U.S. Export Assistance Center together in providing export services, we also work very closely with, for example, our Small Business Development

Centers. There are five International Trade Centers in the State of Illinois alone, and we work very closely with them.

They are often the first stop for a small business looking for assistance, since they are located throughout the State. The International Trade Centers often times refer them to the U.S. Export Center, either for further marketing assistance, or for the finance programs that both SBA and Ex-Im bank offer.

Also one of our partners is SCORE, the Service Corps of Retired Executives. Many of those business people have extensive international experience and are able to help the newer exporters.

The SBA's main program in the Export Assistance Centers is our export working capital program. As you know, study after study has shown that the single greatest obstacle for many small business exporters is their inability to obtain financing. Because of this, SBA and Ex-Im bank have worked to harmonize their two Export Working Capital programs, in order to make it easier for small businesses to access and easier for them to understand which Agency they should go to. In October of 1994, SBA initiated this program. The way it works with Ex-Im bank is we take the smaller deals, those under \$750,000, our guarantee limit, and Ex-Im bank will help the larger businesses with their larger amounts.

With respect to that program, I would like to thank you, Chairman Manzullo, and the other members of Committee in restoring the 90 percent guarantee for this program. I do believe that as the White House Conference had recommended, this will help our small business exporters enjoy the same advantage that the larger exporters have.

One of the hallmarks of SBA service is our local presence. We are located in each center and also throughout our districts nationwide. We try to make sure that we are there for the business to help them put together their finance packages, to help them find a lender, and to work with both their bank and the business to make sure that their export transactions take place.

In some cases we do this with something we call a "preliminary commitment." If a small business cannot find a bank that will work with them, SBA will do the credit review up front. That allows the business person to go shop for a bank that will work with them. That often helps in terms of getting the kind of financing they need.

One of the main things that we do is work with both the small business and the banks in educating them on these Trade Finance Programs to make sure they know they exist, and that they are there for them to offer to their clients.

We conducted about 250 lender training seminars throughout the United States just to make sure that they are aware of the program. We also facilitate the loan approval process by meeting with the banker and the business, working together to get the package and the application together so that there's not too much paper-work confusion, and to make it as quick and easy as possible.

We've committed to have our turnaround time on loan approvals to 10 days, and we have kept to that. We also have the assistance of our SBA District offices in accomplishing that goal.

I would like to give you an example of some of the companies that we work with. There's a company called Tek Pak in Batavia,

Illinois; a very small company with about six employees. They are manufacturers of carrier tape which is used in the electronics industry to manufacture circuit boards.

They had some good domestic customers like Motorola and Molex, but they realized they had to go into international markets if they were going to thrive as a company. They started exporting to Taiwan and, after having received an SBA loan to help them in their startup phase, realized they needed additional export working capital. I went out and met with them. We put their package together, talked to their banker, and they were able to have a \$250,000 loan approved.

Now, they have gone from sales of \$500,000 in 1994 to \$1.8 million at the end of 1995; and we just approved a new loan for them. They are expecting their sales this year to be at least \$4 million.

Tek Pak is also working with the Department of Commerce. They had indicated to me they wanted to expand beyond Taiwan and needed some additional assistance. So, the Department of Commerce met with them and provided information on their agent/distributor service and provided them with some marketing information.

I thank you very much for inviting me. If you have any questions, I'd be glad to entertain them.

[Mr. Joyce's statement may be found in the appendix.]

Chairman MANZULLO. The next witness is James Morris from Ex-Im.

TESTIMONY OF JAMES P. MORRIS, DIRECTOR, REGIONAL OFFICE, EXPORT-IMPORT BANK OF THE UNITED STATES, MIAMI, FLORIDA

Mr. MORRIS. Mr. Chairman, members of the Subcommittee, my name is Jim Morris. I'm the Regional Director for the Southeast Region of the Export-Import Bank of the United States, and I am also with the Miami USEAC.

As background I hold BS and MBA degrees from Marquette University. I was a Naval Officer and served in Vietnam. My career in Export Trade Finance spans 30 years. My first medium term export financing deal using Ex-Im bank was in the late 1960's, and it was for Barber Coleman Company of Rockford, Illinois.

Chairman MANZULLO. You really know the buzz words, including the Mighty Warriors of Marquette University.

Mr. MORRIS. The Golden Eagles.

Chairman MANZULLO. They changed their name; right. I graduated from law school there in 1970, but I'm sure you read my biography before you made that statement.

Mr. MORRIS. That's why it's in there. I did try to do my homework.

Thank you for the opportunity to discuss what Ex-Im bank is doing to enhance the effectiveness of the USEAC's and to respond to criticisms made in the Inspector General and GAO's report.

Our mission is to finance U.S. exports when the private sector cannot or will not provide the necessary financing, or to meet subsidized financing from foreign governments. We take risks the commercial sector will not assume—primarily in big emerging markets in the developing world. We provide leadership and guidance and

export financing to the U.S. exporting and banking communities and to foreign borrowers buying U.S. goods and services.

Finally, we actively assist small- and medium-size U.S. businesses increase their exports. Exports mean jobs, higher paying jobs, and a better standard of living. Small businesses are the largest segment of the U.S. employment base. Despite this, the majority of U.S. exports still come from larger companies.

To tap the growth potential of small business exports, we at Ex-Im bank have strengthened our commitment to small business by improving and enhancing our small business programs and by reaching out through every possible delivery mechanism such as the USEAC and our city/State partners.

A case in point, Lynch Machinery of Bainbridge, Georgia, is a small manufacturer of glass forming machines used to make high definition television and computer picture tubes as well as glass tableware.

Through the USEAC, the bank recently supported the company with a \$12½ million revolving working capital guarantee. In addition, our Georgia city/State partner is planning to guarantee an additional \$500,000 in revolving working capital financing. With this combined support, Lynch will sell \$50 million in glass presses to the Asian markets in 1997. Lynch will hire 60 new employees including many mechanical and electrical engineers.

In these times of budgetary constraints, Ex-Im bank views the USEAC as a way to more efficiently use taxpayer resources. Although the USEAC was created in record time, we have achieved a great deal; but we are always looking for opportunities to further improve. In that regard we view suggestions from GAO and the Commerce IG as we would those from any good management consulting firm. We've embraced their helpful suggestions and recommendations.

I would now like to discuss what Ex-Im bank is currently doing to enhance the effectiveness of the USEAC network.

We strongly support the National Export strategy and the U.S. Export Assistance Center concept. These centers provide the bank with another delivery mechanism for our programs.

However, it is important to note that when GAO made the original proposal to establish one-stop shops, Ex-Im bank had no field offices. The original proposal did not envision Ex-Im bank's presence in the one-stop shops. The one-stop shops were to be formed out of existing staff from the field offices of the Department of Commerce and the Small Business Administration.

DOC personnel were to provide the technical assistance to exporters. The SBA field offices were to be fully trained in Ex-Im bank's financing programs, so that they could provide assistance in our financing programs, as well as in their own Export Working Capital Guarantee Program.

It was not until Ex-Im bank made a decision to bring in the Foreign Credit Insurance Association and its five field offices that Ex-Im bank inherited this small field office structure. It was with this small field office structure that Ex-Im bank was able to commit a full-time presence in four of the USEAC's.

In the interest of making efficient use of taxpayer resources, Ex-Im bank continues to believe that the most efficient way to present

Ex-Im bank programs in the other USEAC's is not to duplicate the large field structure that is already in existence in the other Agencies, but to make enhanced use of DOC's trade representatives, SBA's loan officers, and Ex-Im bank's own city/State partners.

As a result of our commitment to the program and our small business push, Ex-Im bank authorized support for over \$284 million in transactions through the city/State program in fiscal year 1995. Most of these transactions involved the banks Working Capital Guarantee and Insurance Programs; however, some involved medium term business. Although the top five city/State partners provided about \$185 million in support, almost all the other 22 partners did something.

We have accomplished a great deal since this program began. But as in any new program, kinks always exist; and we are working continuously to address them so that the program will reach what is envisioned, a better delivery service to small- and medium-size businesses so that they can realize export success.

Before I conclude I would like to thank you and the Committee for your assistance in starting the process to restore 90 percent coverage to SBA's working capital guarantee program, which will make it again compatible with Ex-Im banks and in turn enhance all of our ability to assist U.S. Small Business Exports.

Thank you very kindly.

[Mr. Morris' statement may be found in the appendix.]

Chairman MANZULLO. Thank you very much, Mr. Morris. Mrs. Clayton, do you want to lead off with the questions?

Mrs. CLAYTON. I expected to follow you, but I'll move on.

I wanted to get back to the term "general report," Mr. Frazier. When did you conduct your initial study?

Mr. FRAZIER. Our field work began in December 1994, before pilot centers had been opened for just about a year.

Mrs. CLAYTON. So, it was a little less than a year?

Mr. FRAZIER. Yes, in fact, in some cases it was clearly a year. We were at the opening of a few of the centers, and by the time we finished our work, all of the pilots had been opened for more than a year.

Mrs. CLAYTON. So, you have had more of an experience to examine, I guess, some of the efforts that they may have put in since then.

Mr. FRAZIER. Yes.

Mrs. CLAYTON. I also found that within a year is rather early, but—could you tell me why you went in? Was there something that you were looking for in assisting in the development, or were you trying to evaluate that the development had occurred. Because having done evaluation, I come from a planning background, usually there's a longer period of time that's required to make a determination rather objective and achieve. So, were you asked to come in for some reason?

Mr. FRAZIER. No. But I think a couple of things are really important here. One, I think I mentioned that we have done inspections of the US&FCS field offices for over 10 years. We have worked very closely, for example, with GAO when it was doing its work in support of the Export Enhancement Act of 1992.

We went on record in 1993—when we looked at the trade promotion efforts of the Department of Commerce—in recognizing, in principle, the importance of having “one-stop trade centers.” So, we were very much interested in this.

The other thing we know from experience is that it does very little good to come into a program 2 or 3 years down the road and just offer criticism.

One of the things that we thought we would do because we knew a great deal about the origination, if you will, of the program, was the direction that people were moving in the program. We had lots of discussions with the Director General and others—and including GAO. So, we wanted to get in early with the idea of identifying potential problems, correcting those problems as soon as possible, and identifying things that were working well so that they could be replicated where appropriate.

Mrs. CLAYTON. So, you’ve had a chance to talk with various Agencies?

Mr. FRAZIER. Very definitely.

Mrs. CLAYTON. So,—and they have—this has been out a year—almost 8 months, I guess, since your report has been completed?

Mr. FRAZIER. Yes. We issued it in March of this year.

Mrs. CLAYTON. It hasn’t been that long. Well, at least there have been several weeks, several months.

Mr. FRAZIER. But more to the point, we issued our draft report, I think, in January of this year; and so the Agencies had an opportunity to respond to that. But I think one of things that was also extremely important was that during the course of the work, we would come back and spend time with the program managers; and we gave quite bit of credit to the fact that if we identified a problem at a particular pilot, corrective actions were often taken very quickly. I think that’s a testimony to management being responsive to the issues and problems that we had identified. That was something that we had envisioned from the beginning: the idea that it’s a problem may be bad: but I think it’s worse if you don’t address those problems. So, we saw ourselves as participating in the process as much as anything.

Mrs. CLAYTON. So, you saw this as a continuous of your role that you’ve been inspecting or looking at export activities, and you wanted to be engaged in I guess this development so in case you could correct things before it got too far.

Mr. FRAZIER. A role that the IG Act establishes for Inspectors General is one of “prevention.” You don’t always have to wait until all of the problems have occurred. You can try and preclude problems up front.

Again, given the long history that we have in that program, and our knowledge of the field structure, including our interviews working with GAO as well as SBA, have never done an inspection in the last 10 years, for example, without going and talking to what we call “the Local Export Organizations,” which always would include Ex-Im banks, always the DEC’s—district export counsels and the like. This was something that we’ve been involved in for a long time and felt it important to continue along that path.

Mrs. CLAYTON. You would say that the managers were cooperative with you?

Mr. FRAZIER. Very definitely.

Mrs. CLAYTON. You did make some observation that you thought the evaluation prior to of a training, prior to the going in had not been sufficient joint counseling?

Mr. FRAZIER. Yes, I think there are a number of issues along that line. In fact, one of the things that we find often is that the staff in the field will identify the problems. I mean they live these issues day in and day out. They wanted to learn the programs.

One of the things that Jim mentioned is the importance of the various participants understanding each other's programs. It's important that Ex-Im bank can go out, if you will, and explain what Commerce is doing. Commerce needs to be able to understand trade finance. In fact, the biggest complaint that we heard from the staff in the early days was that they wanted more training in trade finance. This was something that, in fact, did happen.

Lots of training was put on the table in trade finance. And, in the last 2 to 3 weeks, when we have done some follow up, we found that one of the success stories is that training is being delivered. It's one of the things that's very important.

Mrs. CLAYTON. I think I'll come back because, Mr. Chairman, I see my time has expired. But your—your conclusion is still it's an effective program and corrective action—

Mr. FRAZIER. One of the things that we're saying about the program, I think as our statement mentions, is that we think the program has enormous potential. What we'd like to do is just to see program managers that are under the leadership of the Department of Commerce with the support of SBA and Ex-Im bank will continue to address the issues that have been identified by GAO, by our office, and also by its own staff.

They too are looking very critically at some of the things that are being done—I've seen notes from some of their site managers' meeting. Those are contentious meetings, as you can image. But what's good about that is that as they identify problems; they're bringing them to the surface; and those issues are going to be dealt with. As long as they stay vigilant in that area, I think we'll be in better shape.

Mrs. CLAYTON. As a manager you know that's good management to have—

Mr. FRAZIER. I'd like to think so.

Mrs. CLAYTON [continuing]. thinking of their contention. Thank you, Mr. Chairman. We get another chance at—

Chairman MANZULLO. This question is addressed both to Mrs. Hecker and Mr. Frazier. Have you had opportunities in the past to do a performance audit of any other governmental units that have been set up where you have three or four different Departments or Agencies working together in a single office?

Ms. HECKER. I can say that I have a parallel experience, a kind of co-location of separate offices. I've done work looking at the Department of Agriculture trying to streamline their—

Chairman MANZULLO. Well, good luck.

Ms. HECKER [continuing]. their several thousand offices and working to co-locate them, and that certainly was a challenge. I've also done some work looking at efforts by FDA and EPA, and other players on toxic waste management. There were definitely big slips

and big problems. So, there are systemic problems that Agencies always have and that we have seen, but there hasn't been the significant explicit effort to co-locate that this initiative has done.

Chairman MANZULLO. So, this is really something new.

Ms. HECKER. It is in my experience.

Chairman MANZULLO. What about you, Mr. Frazier?

Mr. FRAZIER. It's a difficult task. One of the things that we looked at about 2 years ago was the effort of the Departments of Commerce, State and Energy to work closer together in developing a system to monitor export licenses, especially those involving "dual-use" items.

When we saw the difficulties just in terms of putting together a computer system that three or four Agencies could talk to one another with; and it almost seemed to be an impossible task.

We made many recommendations, and we're pleased to say that considerable progress has been made. It's a very, very difficult task. I can say that even when we were doing follow-up work in the last week, some of the people who were very critical of the USEAC Program in the early days—one of the things that they—to my surprise—was "I never thought that they would even get this far with the program." Because it is something that is very difficult in Government - and I think that may be an unfortunate thing—but it's a difficult undertaking. As I emphasize, some of the harshest critics out in the field who said this will never work were surprised that we had even made this amount of progress in this short period of time given the inherent difficulties associated with trying to make several Agencies work together.

Chairman MANZULLO. Ms. Hecker. Did you have a footnote you wanted to add to that? I saw a note was slipped for you.

Ms. HECKER. Actually it was something I was thinking of as well. The effort by embassies to coordinate the growing number of Agencies provides some parallel experience and we actually have some ongoing work looking at the special challenges being presented by the downsizing of the embassies at this time. But I personally have been to some embassies. In January, I was in China and asked for a briefing on our problems with agricultural access to the Chinese market, and I had to get three separate briefings. There were three separate agricultural offices in China and I couldn't get a whole consolidated briefing.

Chairman MANZULLO. In terms of your experience with other Agencies, this is a new working group. USEAC's are new. From what I can tell, the areas of concern normally would be in the start up. This is like starting a brand new business, but the employees are coming from three different Agencies.

I guess what concerned me is the statement that you made on page 2. It says, "staff we interviewed at certain USEAC's stated that they were reluctant to recommend the services of another Agency, even to clients who expressed a need, because they were unfamiliar with that Agency's performance and delivering the service. Is that what Mr. Frazier answered when he talked about the new level of interagency training that went in, so that Commerce knew what SBA was doing, et cetera. Lauri, did you want to answer that question?

Ms. FITZ-PEGADO. Sure. Thank you. I would comment on that. I believe that the GAO study was conducted very, very early; up to 16, 18 months ago. I think that, as you stated, Mr. Chairman, that any time you start out with a new entity, you're going to have startup concerns and problems. We are growing and learning, and we are trying to correct many of the things that have been identified.

But I think that early on in a process there's a lack of familiarity, even with training, that experience can breed through working together on a day-to-day basis; and I think we've seen some of the result of time, what time has done to have people understand service more, to have confidence in each other. The unknown is often something that people see as a—

Chairman MANZULLO. Sure.

Ms. FITZ-PEGADO [continuing]. So, it's happened.

Chairman MANZULLO. How do people typically work in the Chicago USEAC office?

Ms. JOYCE. There's now about 14 of us—

Chairman MANZULLO. So, that's a pretty small office.

Ms. JOYCE. Fairly small; right. So, we see each other every day.

Chairman MANZULLO. Do you utilize the National Trade Data Bank there?

Ms. JOYCE. Yes, we do.

Chairman MANZULLO. We had a hearing here in Washington, and then a field hearing in Rockford, Illinois, where we brought in five private vendors. Mary, you were there in Rockford. Is there any need of a more standardized or beefed up computer system for accessing foreign markets or developing a more user friendly system.

Ms. JOYCE. Well, we refer clients to the National Trade Data Bank all the time. In fact, it is also located in all of the International Trade Centers that I mentioned throughout this State.

Chairman MANZULLO. But you don't have it there in the USEAC?

Ms. JOYCE. We do have it in the USEAC. We haven't had many problems with it. I think that once you learn how to use it, it's not that difficult. We also are there to help a client in case they need assistance with it. But we haven't had many difficulties.

Chairman MANZULLO. Do you use it a lot in the office?

Ms. JOYCE. Yes, on a fairly regular basis, such as when we get a request for a market research report. Unless it's easier for the client to pick it up at a local trade center. We can do it there.

Chairman MANZULLO. Do you make visits to businesses if they ask you to come to their place of business?

Ms. JOYCE. Yes, all the time.

Chairman MANZULLO. Do you bring a lap top with you that accesses the data bank there?

Ms. JOYCE. We bring a lap top sometimes when we're working on a loan with them so that we can help them go through the application.

I believe when we go out with a Commerce representative, they can bring that so that they can access it.

Chairman MANZULLO. What I would request is that you send us a letter of what your needs are in the USEAC.

Ms. JOYCE. OK.

Chairman MANZULLO. I'm not talking about the performance evaluation and the different challenges that have been set forth here by GAO. If you're in need of a beefed up data bank that will integrate some of the systems that we saw at that field hearing, let us know about it.

Ms. JOYCE. OK.

Chairman MANZULLO. Perhaps we could shift some resources or do something creative to get the most high-powered data bank in into the USEAC office.

Ms. JOYCE. OK.

Chairman MANZULLO. There should be a way that the trade data bank in Chicago could be accessed from District Export Assistance Centers, one of which just opened in Rockford a couple of weeks ago.

Ms. JOYCE. Right. I know it is available there, too.

Chairman MANZULLO. Right. Right. But would you mind doing that need evaluation study for us?

Ms. JOYCE. No, not at all.

Chairman MANZULLO. Take some time doing it. Take a month or so and have some staff meetings and say, "This is what we would like to see" in terms of whether it's equipment or anything else and then we'll see what we can do on this end.

Ms. JOYCE. We'll be glad to.

Chairman MANZULLO. Thank you. Mr. Luther, do you have any questions?

Mr. LUTHER. No, I don't.

Chairman MANZULLO. Mrs. Clayton.

Mrs. CLAYTON. The question the chairman brought up, caused me to think of this initially, is the uniqueness of the coordination, and it was phrased "the difficult of one." And right away, his disparaging comment about agricultural was taken with some exception, since I'm on the Agricultural Committee.

I know what the difficulty you just talked about when you talk about downsizing; because within the same Agency, you had the difficulty of a farmer's home, having had that clientele. We used to call it "ASCS." They call it something else now. Having their client—and sometimes it was the same people, but had gotten used to functioning in a certain way.

The word "coordination" is a term that has less direction and authority, that's put under it. I've had the experience of pulling together—social services together, health areas; where we had home health, and we had a health department, and we had a primary healthcare in the same building. I made a mistake of suggesting they share filing. They had to go get a legal opinion.

So it's difficult. In some instances, there are things to—buy effective coordination, and they're called "mission statement," how they get their authority. Is there anything inherent in Ex-Im bank or in SBA or in Commerce, itself, that really says that we have to do it this way, the authority that established us gives us unique objective that—we find staff people saying we can't do this because this is what our mandate is, this is what the statute says, this is what is the emphasis for our creation where, here are the integrities of the Ex-Im bank that we have the underwriting requirements; is

there anything—this is not accounting a performance of a good will, this is just mission authority, any of you?

Ms. FITZ-PEGADO. Let me suggest, Congressman Clayton, that we have tried to creatively address those issues in the field operations before we went out to formulate these pilots and this hub and spoke structure. We spent hours and hours; and there are people in this room who know when the inter-agency process of trying to determine how we do this that we burden the field operations with the things that the Washington headquartered, inter-agency group should deal with.

That's why the cross-training in terms of understanding other people's programs, but we didn't want the authorities that would impede the ability to serve the client. This is a client driven system. We don't want a client to walk in and say this is SBA, Ex-Im bank, or Commerce. They want to be able to walk in and get the service.

They shouldn't be burdened by any mission statements or authorities that would prohibit them from getting money, from getting information about exporting. That's how we've tried to address this. If there are policy issues, et cetera, on loan authorities and all of those things, that's why we're able to go back to headquarters and have the type of site directors reviews where we bring in inter-agency headquarters people to help with the policy or mission impediments, which I don't think have been the overriding concern, but I would ask my colleagues who are actually out in the field doing it, those—we go to them for the answers we try not to come up with cookie cutter approaches from Washington.

Ms. JOYCE. I wouldn't say there's really been any difficulty with that aside from, of course, that at SBA our legislative authorization of course, is just for small businesses. So, we have a greater focus on that.

But other than that, not really. We do share information. The only thing we would keep confidential, of course, are the personal financial statements of the clients that are asking for loans or things like that.

But other than that, there really has not been any conflict in terms of what our missions are. We all view it as the same mission which is to help more businesses export. That has really helped us all understand that we're there for the same purpose.

Mrs. CLAYTON. How about the Ex-Im bank?

Mr. MORRIS. Our big difference, I think, is in product. I think our ultimate goal is to create jobs, U.S. jobs, so we don't get involved with non-U.S. product. Another thing I think we're precluded from doing is assisting in the export of defense articles. So if there's a distributor in Miami that imports product from Taiwan and resells it to Latin America, we cannot help him. Whereas, I think maybe the SBA could.

Mrs. CLAYTON. So, you just have some limitations of things you cannot do. You don't see anything in your mission statement, though?

Mr. MORRIS. No these come up rarely, so no.

Mrs. CLAYTON. So, I gather if we're looking at how we make this good experiment better, it's more behavior or just working together having experience, and the issue of accounting was brought up in

terms of—can you comment—has there been any—access of—has there been a follow up of your study—is it your testimony first full rendition of this to the Agency—how long have the various Agencies had this?

Ms. HECKER. Well, this particular review, we sat down with senior Agency people, as many as 8 months ago. We were doing this work on our own initiatives, so we worked very closely with the Agency. There wasn't a requester to say, no, you tell us first.

Mrs. CLAYTON. So, you didn't have a deadline—

Ms. HECKER. No, but on the accounting issue, our accounting division actually issued a letter to the Agency on that issue and worked with them prior to last August.

Mrs. CLAYTON. OK.

Ms. HECKER. So, that issue was not new for us. This issue was brought to our attention when we asked for some data on the cost of the USEAC? And that's when we reviewed the documentation that existed and learned that there were fundamental weaknesses in their financial management system. Which they acknowledge and they have commitment to work on.

Mrs. CLAYTON. So, you're satisfied that there is a understanding of what's needed to correct that, and there's a commitment to do that?

Ms. HECKER. Well, I can't say that we've done a complete review of what that strategy is and how effective it might be since we just received their response in the last few days.

So, on the surface, certainly there's an acknowledgement that it's an important problem, but what we see is a strategy. I think, as Ms. Fitz-Pegado said, the Agencies are committed to put in place a platform and try to move toward implementation of a better system. This is not something that is going to be completed very soon.

Mrs. CLAYTON. Is that the system to be implemented at the end of the year or is that the—I thought that was that was the data system, I thought?

Ms. FITZ-PEGADO. No, we are confident that we have a system in place, a flat cost system with the various Agencies. Perhaps the Agencies could comment, because they're the ones dealing with it on a day-to-day basis. But we are confident that the system is accountable and that works.

Chairman MANZULLO. Thank you, Mrs. Clayton. I have another meeting to go to. First of all on the accounting system, USEAC's handle no cash. This is not a matter of money coming in and money going out. It's an issue of budgets.

Second, with my limited background of running a one-person law firm, with two secretaries, if you want to figure out what the USEAC costs, look at the cost of the rent, the cost of the utilities, the mileage reimbursement, what each person is getting paid. Then factor that by what each Agency tells you is the multiplier factor as to the actual cost per employee.

Let's say each employee is paid \$30,000. If the factor is $2\frac{1}{2}$ times, then you should have the actual amount of what it takes to run a USEAC. It shouldn't take that long. But I just don't think it's that necessary to calculate to the final penny when dealing with Agencies that have their own budget and then they work together to share office space on a joint project, I'm sure it is very

difficult to try to figure whether or not it is really worth it to have a USEAC.

The bottom line is you would have these employees anyway, but all separated. Now everybody's coming together into one office. The fact that the Agencies are sharing an office in itself indicates that it's one office as opposed to three offices.

So my concern's going to be cost effectiveness, and yet getting every detail ironed out is not a big deal as far as I'm concerned. The people who are working there are trustworthy and their goal is to make sure the services with which they have been entrusted will find a way down to the ultimate consumer.

One of the things that I would suggest, especially to Ms. Joyce, regards your outreach there. Our mutual goal is to get new small business to export. The district I represent has 1,600 manufacturing facilities. This is essentially a rural area, from a one-person shop up to Chrysler Corporation. It's the smallest businesses that don't know what USEAC is and they have a hard time envisioning getting involved in exports.

I would make a couple of suggestions. First, is to contact as many service groups as possible. The Kiwanis, the Rotary Clubs, and try to get in there to put on a luncheon presentation. Bring some props. You can have an overhead projection demonstration with flow diagrams and easy to understand charts and graphs to keep the attention span of the audience. Then simply demonstrate that exports are possible for small business persons.

That's the biggest problem we have today is that small businesses are afraid of exports. They have no idea they can get involved. If you remember, at the Rockford field hearing, one gentleman that started with after market power drive transmission systems sort of casually got involved in exports and now half of his business is devoted to exports.

So I would suggest the outreach should not be to the regular trade organizations, but to Chambers of Commerce all the way down to the Kiwanis and Rotary clubs. I don't know if you're doing that, but I would just make that suggestion just to see how it works. Because if you snag one person from there that has an interest in exporting, it would be well worth while. Mrs. Clayton, do you have comment on that?

Mrs. CLAYTON. I was going to mention, Mr. Chairman, that Mr. Morris' testimony suggests that small business are very much involved with trade. The largest number of businesses involved in trade happen to be small business. It just means they are not producing the volume. How do the—produce and the services in volumes and dollars come from the larger ones. So, there is a level of proficiency and depth. So, they may have good reason to be afraid of trade and—because there's some difficulty. Hopefully, you can overcome that difficult in doing that.

Chairman MANZULLO. Well, I want to thank you for coming here this afternoon. I'm sorry for the 1 hour delay because of the votes going on. But the Energy and Water Appropriations Bill passed, but it took 1 hour for the series of votes to finish. So, we want to thank you again for coming, and Ms. Joyce, we look forward to your answers. Take some time, work with the other Members, and let us know your needs. It's not necessary to have a hearing, but

let us know your needs from time to time. If it's a simple need, such as even buying a copy machine, let us know.

Ms. JOYCE. We will.

Chairman MANZULLO. We'll see if we can work from this end to make these USEAC's as streamlined as possible.

Ms. JOYCE. Thank you. I appreciate your support.

Chairman MANZULLO. Thank you.

[Whereupon, at 12:19 p.m., the Subcommittee was adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT OF CHAIRMAN DONALD MANZULLO
BEFORE THE SUBCOMMITTEE ON PROCUREMENT,
EXPORTS AND BUSINESS OPPORTUNITIES OF THE
HOUSE SMALL BUSINESS COMMITTEE
*"EFFECTIVENESS OF U.S. EXPORT ASSISTANCE
CENTERS"*

JULY 25, 1996

10:00AM Room 2359 Rayburn HOB

Today, the Subcommittee will examine the effectiveness of the relatively new U.S. Export Assistance Centers or USEAC's. Congress pushed this idea as part of the 1992 Export Enhancement Act. Now is an appropriate time to have an oversight hearing on their continuing progress.

Both the General Accounting Office and the Inspector General of the Commerce Department have completed a comprehensive review of the USEAC system. As expected with any new venture, there were ups and downs. We are not here to play Monday-morning quarterback. My aim is to work constructively with Commerce, Ex-Im, and SBA to see how we can serve small business exporters better.

I believe the audits conducted by the GAO and the IG have played a very constructive role in moving the USEAC's closer to the vision of the authors of the Export Enhancement Act.

Most of the problems pointed out by the audits focus on lines of authority and responsibility, and budget constraints. My long-term dream is to have, one day, a Department of Trade, which will have a clearer mission mandate and a true unified export promotion budget.

But that is not why we are here today. Our first set of witnesses will be the auditors from the GAO and the IG of Commerce. Then, we will proceed to agency witnesses who will have the opportunity to comment on the reports. The agency witnesses have first-hand knowledge of how the USEAC's work because they are based in the field.

With that, I yield for an opening statement by the Ranking Minority Member, Mrs. Clayton.

ADDITIONAL STATEMENT OF CHAIRMAN MANZULLO

July 25, 1996

I want to take this opportunity to submit for the record my comments on the statement by the Ranking Minority Member, Mrs. Eva Clayton, on this hearing to clarify for those who request a copy of this hearing what exactly happened this past week.

First, the focus of the hearing was not to "glorify the weakness of the U.S. Export Assistance Centers (USEAC's)." In fact, at several points during the hearing, I took great pains to praise the USEAC's and the people who work at these centers. If anyone takes an objective look at the General Accounting Office (GAO) statement, one will find an equal balance between positive and negative aspects of how the USEAC concept was implemented. And, where improvements were needed to be made to the USEAC system, they were not the result of "small errors." They dealt with the heart and soul of the operation of the USEAC's -- staff performance evaluations, an accurate accounting and procurement system, and a consolidated customer tracking system. Even Mrs. Clayton's statement recognized that "USEAC's are not a perfect experiment." Thus, where there are problems, we should all work together to see that they are ironed out in a nonpartisan, constructive, and timely manner.

Second, there was no objective reason to delay the hearing. It is important to highlight once again that there was no formal "blue book" GAO study on USEAC's to be released either before or after the hearing. Thus, if the hearing was delayed by one day, one month or one year, Members of the Subcommittee, including the Chairman, still would have not received a copy of the GAO statement until 48 hours before the hearing, in accordance with committee rules. In addition, Mrs. Clayton's staff received an oral briefing from the GAO on the general findings of their audit on July 9, 1996. Thus, the Ranking Minority Member had 16 days to prepare for this hearing, which is more than adequate, noting that committee rules only require that the minority be given seven days notice for a hearing. Finally, the Inspector General (IG) released his report on the USEAC's on March 31, 1996, four months before the hearing, which could be accessed by anyone by simply requesting a copy. To have delayed the hearing, especially into September, was not necessary and would have lost the focus of Members during the last weeks of the legislative session who would have found it difficult to give this hearing the due diligence it deserves.

Third, the hearing served a good legislative purpose. The hearing focused the attention of the U.S. Commercial Service, the Export-Import Bank, and the Small Business Administration to resolve the three outstanding issues highlighted in the GAO testimony, including the signing of Memorandums of Understanding (MOU's) among the agencies to clarify any misunderstandings, so that they could honestly say at the hearing that they solved these problems. Even the Inspector General testified at the hearing that within "the last two to three weeks, (Commerce) has done some follow-up." In addition, the House will soon vote on HR 3759, the "Exports, Job, and Growth Act of 1996," which reauthorizes, in part, the export-related programs of the International Trade Administration at Commerce, which includes the USEAC's. Also, the House always looks at trade promotion programs through the annual appropriations process. Thus, there was definitely a good legislative purpose behind this hearing.

Finally, this hearing was not partisan in tone or substance. As Chairman, I've always allowed the witnesses requested by the minority to testify even beyond the minimum requirement. I've allowed witnesses from the Clinton Administration to state their views. If this hearing was truly partisan, I would have only allowed the GAO and the IG to testify in order to bash the way the Clinton Administration has handled the roll-out of the USEAC's. That plainly didn't happen because from the start I had intended to invite representatives from the various agencies to testify on the accuracy of the GAO and IG audit and I support the creation and expansion of the USEAC network. In fact, the GAO and the IG were outnumbered by Clinton Administration personnel by three to two, so if there was any partisan accusation, it would be that the hearing was stacked in favor of the Ranking Minority Member's position.

Once again, it is important to remember that even the GAO and IG statements pointed to many positive aspects of the USEAC system. Thus, this hearing was the furthestmost thing from "extraordinary partisanship." If anything, it was, quite simply, boilerplate good government oversight.

In conclusion, this hearing on the effectiveness of the USEAC's was balanced, timely, nonpartisan, and served a good legislative purpose, notwithstanding the statement made by the Ranking Minority Member. Thank you.

STATEMENT OF
CONGRESSWOMAN EVA M. CLAYTON
BEFORE THE SMALL BUSINESS SUBCOMMITTEE ON
PROCUREMENT, EXPORTS, AND BUSINESS OPPORTUNITIES

THURSDAY, JULY 25, 1996

Mr. Chairman, this morning the Subcommittee stands convened to discuss the "Effectiveness of U.S. Export Assistance Centers, or USEACs." At issue is a General Accounting Office study which found that, although the four original "pilot USEACs" have been very effective in meeting the needs of its targeted costumers -- namely small and medium sized exporters -- their effectiveness is hampered by a general inability by the employees of the separate agencies to act as a single unit. Consequently, GAO concluded that, among other things, costumers were not being referred to other agencies and employees at times duplicated each others efforts. To remedy this problem, GAO recommended three changes to the operational structure of the USEACs.

Although these recommendations are significant, they do not signify a rejection of the USEAC concept. Indeed, as was stated earlier, in its testimony, GAO is complimentary of the overall performance of the USEACs it surveyed.

Furthermore, many of the agencies in question, have already acted upon or are in the process of acting upon these recommendations. For example, in response to the GAO's concerns regarding allowing USEAC directors more authority over evaluating staff from different agencies, both the staff of the Commerce Department and the SBA have already agreed to allow USEAC directors to provide at least 15% of USEAC staff's performance rating. In this and in many other ways, Mr. Chairman, all the agencies participating in the USEAC experiment, have acknowledged the concerns of its critics and have acted to correct many of the problems.

From all accounts, then, USEACs are a vital part of the United States export promotion policy. Originally designed to integrate the many different export and finance assistance programs operated by the federal government, USEACs serve as "one-stop shops" in which trade specialists from three government agencies -- the Commerce Department, the SBA, and the Export Import Bank -- assist small and medium sized businesses interested in exporting.

In this body, we often admonish federal agencies to learn to do more with less.

Mr. Chairman, USEACs are doing just that....they are an excellent example of agencies working in partnership with local and state governments to leverage its resources in order to better enable American businesses to compete in the global marketplace. USEACs are, I would suggest, an innovative step toward providing, in a single convenient location, hands-on export marketing and trade finance support for small and medium-sized companies. Therefore, Mr. Chairman, while we should continue to exercise due diligence in our oversight responsibilities, we must recognize and give support to those programs that by all objective accounts has been invaluable to assisting small businesses export American goods and services abroad.

Now I must admit, Mr. Chairman, that -- in a political environment which has become infected with extraordinary partisanship -- when my staff first informed me that this hearing was scheduled, I was -- to say the least -- concerned. I was concerned for several reasons, but most importantly Mr. Chairman, I did not believe that the proximity of the hearing to the August recess, provided Members and the agencies in question sufficient time to prepare for and respond to the findings of the GAO study.

However, over the course of the last two weeks, after speaking with you on several occasions, followed by continued conversations between staff, many of my initial concerns were addressed. Although the hearing could not be postponed, as I had originally suggested, I would like to thank you for your cooperation in addressing my other concerns.

Accordingly, Mr. Chairman, as we go forward in this hearing, I hope and expect that in future hearings we will continue to cooperate in a bi-partisan spirit.

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



***INTERNATIONAL TRADE
ADMINISTRATION***

*U.S. Export Assistance Centers
Offer Reason for Optimism, but
May Fall Short of Expectations*

Inspection Report No. IPE-7130 / March 1996

Office of Inspections and Program Evaluations





UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
 Washington, D.C. 20230

MAR 29 1996

MEMORANDUM FOR: Lauri Fitz-Pegado
 Assistant Secretary and Director General,
 U.S. and Foreign Commercial Service
 International Trade Administration

FROM: Frank DeGeorge *Frank DeGeorge*

SUBJECT: Final Report on Inspection of U.S. Export Assistance Centers
 (IRM-7130)

This is the final report on our evaluation of U.S. Export Assistance Centers. Our observations are described in the Executive Summary on page i and the recommendations are listed on page 38.

This report is a follow-up to our December 6, 1995, draft report and includes comments from your February 12, 1996, written response. A copy of the response is included as an appendix to the report.

We thank US&FCS personnel at headquarters, the USEACs, and the regional offices, as well as the officials and staff with the Small Business Administration and the Export-Import Bank, for the assistance and courtesies extended to us during our review.

Attachment

cc: Tim Hauser, Acting Under Secretary

INTERNATIONAL TRADE ADMINISTRATION

**U.S. Export Assistance Centers Offer Reason for Optimism,
But May Fall Short of Expectations**

Final Inspection Report No. IPE-7130 / March 1996

**U.S. DEPARTMENT OF COMMERCE
OFFICE OF INSPECTOR GENERAL**

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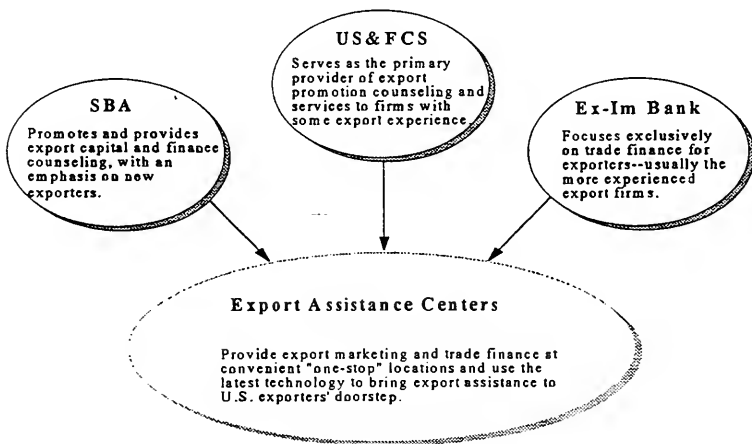
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EXECUTIVE SUMMARY

For too long, the federal government's efforts to deliver export marketing and trade finance assistance have been characterized by duplication and gaps in service delivery. The effect of this has been to create obstacles for exporters seeking federal marketing and trade finance assistance. In recognition of this, the U.S. Congress enacted the Export Enhancement Act of 1992, directing the Commerce Department to take the lead in setting up "one-stop shops" to assist U.S. exporters.

These one-stop shops, now known as U.S. Export Assistance Centers, are intended to integrate the representatives and assistance of the three principal agencies providing export promotion services--the U.S. and Foreign Commercial Service¹, Small Business Administration, and Export-Import Bank of the United States, as shown below.



In assessing the USEAC program as it evolved, we found reason to be optimistic that U.S. exporters should increasingly receive improved trade promotion assistance from the federal

¹ The US&FCS is also known as the Commercial Service of the United States, or "the Commercial Service."

government and its public and private partners. At the same time, there is great cause for concern about the future of the program and making the one-stop shops a reality.

The key objective of the USEACs is to enhance and expand federal export marketing and trade finance services through greater cooperation and coordination between federal, state, and local partners. More specifically, the USEAC concept proposes placing more trade specialists in areas with the highest concentrations of potential export clients and improving their out-of-office counseling through enhanced telecommunications and computer technology. But of greater importance, the USEAC program recognizes the need for strengthening the often neglected—yet crucial—trade finance support for U.S. exporters and merges that support with trade promotion efforts.

To develop a strategy and plan for implementing a network of USEACs, the federal interagency Trade Promotion Coordinating Committee formed the Senior Policy Working Group, consisting of senior management representatives of US&FCS, SBA, and Ex-Im Bank. Through this group, the first four USEACs were established in January 1994 as “pilot” sites in Baltimore, Chicago, Long Beach, and Miami.

The Senior Policy Working Group later devised a nationwide plan to set up 11 additional USEACs, for a total of 15 regional EACs by the end of 1995. The group developed a site selection model to identify those states that had the greatest export-growth potential, and had the best mix of local public/private resource partners and export infrastructure. To complete the network, the plan eventually calls for 83 satellite, or “spoke,” offices, most of which are former US&FCS district or branch offices, and each of which will be linked operationally to one of the planned 15 “hub” regional EACs (see map, at Appendix B).

As would be expected, the working group representatives, and others working to make the USEACs a reality, had to confront some difficult issues as they attempted to address such matters as (1) the logistical problems associated with mass relocations, (2) insufficient staff resources, (3) funding constraints confronting the participating agencies, and (4) other matters inherent in any undertaking of this magnitude. As we discuss in the following sections, some of these issues were handled well, others were handled poorly, and some were not handled at all.

Testing the Concept at the Pilot Centers

Under the primary leadership of US&FCS managers and with support from SBA staff, Ex-Im Bank officials, and others, a great deal of effort, dedication, and creativity have been put into designing and implementing the USEAC program. The four pilot one-stop centers were established to test the USEAC concept. Specifically, these centers were designed to test theories, ideas, and approaches on how to best deliver services directly to clients or refer them to appropriate public and private sector partners by integrating the representatives of the three

agencies, and other public/private sector interests. Recognizing that no single design for one-stop shops would work nationally, the working group developed three approaches for the pilot sites: (1) collocate the resources of US&FCS, SBA, and Ex-Im Bank in an existing US&FCS district office (Chicago); (2) consolidate all three agencies' resources into a world trade center (Baltimore and Long Beach); and (3) collocate all three agencies at a mutually agreed upon site (Miami).² Each of the agencies headed at least one pilot EAC. Commerce took the lead at two.

During our discussions with U.S. exporters, representatives from the private sector, and federal, state, and local government personnel who had worked with the pilot centers, we found that most were hopeful that the nation's export assistance delivery system will now more successfully link the federal government's trade finance resources with export marketing services. It was also the consensus of those interviewed that the USEAC concept, if fully and properly implemented, should be able to better utilize the considerable trade finance and trade promotion resources available through state and local public/private resource partners.

In visiting each of the four pilot sites, we made other positive and negative observations. Beginning on page three, we discuss these observations, including the following:

1. The staff at the pilot sites, for the most part, were energetic, enthusiastic, and committed to making the USEACs a success--reconfirming the importance of having the right people, in the right place, at the right time.
2. The early training program for the USEAC staff assigned to the pilot sites lacked focus and depth--and hence did not properly prepare some of the pilot staff for the challenges that awaited them.
3. Joint counseling by the three agencies' staff at some sites got off to a very slow start--leaving this, an integral part of the USEAC concept, to chance and uncertainty.
4. Some of the management, leadership, and staffing problems that quickly surfaced at the pilots were not addressed in a timely manner--often allowing them to fester.

Fortunately, most of the problems can be, or are being, resolved as the USEAC program evolves. After all, pilots are intended to serve as a prototype for future development after identifying (1) things that are working well and (2) problems to be corrected and approaches to be modified *before* the final product is completed. We are very concerned, however, that the key "hub and spoke" aspect of the program was *not* tested during the pilot phase. In fact, the crucial spoke

² "Toward a National Export Strategy, U.S. Exports = U.S. Jobs," Report to the U.S. Congress, September 30, 1993, Trade Promotion Coordinating Committee, p. 14.

component of the USEAC program existed only in concept and has been tested operationally on a limited basis (several, but not all, spokes have been officially opened). It is not clear whether or how the spokes will operate under the hubs to provide a coordinated, expanded menu of services while staffed only by US&FCS personnel. At this point, US&FCS officials and other program managers have decided to roll out the USEAC network and *assume* that the hub and spoke aspect of the concept will work in practice. As we discuss below, there is a great deal of risk associated with this assumption coupled with some of the other issues confronting the USEAC program.

Rollout of USEAC Network Faces Uncertainty

The new alignment of offices will result in the growth of US&FCS domestic locations from a mid-1994 level of 69 (including the four new USEAC sites) to a proposed level of about 100. Fundamental to the USEAC concept is the notion that federal trade agencies will work together to address the long-standing problems and concurrently pursue new and innovative ways to improve the nation's export assistance delivery system. The true test of these agencies' commitment lies primarily in their participation and actual investments in the program. Unfortunately, even at this early juncture, there are indications that the USEACs may not come close to expectations for various reasons, including the following:

- ◆ There is a weakness in the USEAC management structure that does not allow for site directors to have primary authority and input over important budget matters, employee performance appraisals, local program strategy, and other actions that are necessary to make the hub USEACs function as a unified entity. (See page 18.)
- ◆ ITA's long-standing organizational structure problems, coupled with its many priorities and initiatives (*e.g.*, USEACs, Big Emerging Markets, Showcase Europe) which at times appear to be competing with rather than complementing each other, make a difficult task seem almost impossible. (See page 24.)
- ◆ The US&FCS has not provided its expected levels of staff resources. (See page 24.)
- ◆ It is unclear whether (1) the currently proposed number of spoke locations (representing an increase of 33 US&FCS offices) are all needed, and (2) the choice of locations is still valid given that their selection was based on 1987 economic census data (See pages 8 and 26.)
- ◆ SBA appears unable to honor its commitment to the planned level of field staff resources. (See page 27.)
- ◆ Ex-Im Bank is unable or unwilling to make the kinds of internal adjustments to enhance the USEAC network, *e.g.*, assigning staff resources to each regional USEAC. (See page 28.)

- ◆ The USEAC program lacks a reliable system for identifying, measuring, and reporting programmatic accomplishments. (See page 32.)
- ◆ There is continuing confusion about US&FCS's regional manager structure and unanswered questions about whether it provides the proper management oversight of the USEAC program. (See page 34.)
- ◆ USEAC pilot sites did not test, and the existing USEACs do not have, the full range of telecommunications and computer technology needed to put trade specialists in closer contact with their clients and improve their ability to provide out-of-office counseling, as envisioned by the USEAC concept. (See page 37.)
- ◆ Opportunities exist for the USEACs to offer additional and improved information products and services to USEAC staff and their clients, and to deliver the National Trade Data Bank in a more user-friendly medium. (See page 37.)

Recommendations

Beginning on page 39, we make recommendations to the Assistant Secretary and Director General of US&FCS to improve the effectiveness of Export Assistance Centers and US&FCS's interagency leadership of this program.

In its February 12, 1996, written response to our draft report, US&FCS generally agreed with our observations and recommendations. Where appropriate, we have provided additional information to address US&FCS's comments in response to specific sections of our report. A copy of US&FCS's complete response to the report, including responses from SBA and Ex-Im Bank, are attached, as Appendix C. The actions taken, and those planned—when implemented—will meet the intent of our recommendations.

INTRODUCTION

The Office of Inspector General conducted an evaluation of US&FCS and its partners' ongoing efforts to establish U.S. Export Assistance Centers throughout the country. Our review focused initially on the establishment of the centers in four cities: Long Beach, California; Miami, Florida; Baltimore, Maryland; and Chicago, Illinois, and on the continuing efforts to establish a network of centers.

Evaluations are special comprehensive reviews that the OIG undertakes to give agency managers current information about operations, including existing and foreseeable problems. Evaluations are also conducted to detect fraud, waste, and abuse and encourage effective, efficient, and economical operations. By highlighting problems, the OIG strives to help managers address problems now and avoid their recurrence in the future.

PURPOSE AND SCOPE

The purpose of our evaluation was to assess the development and rollout of the U.S. Export Assistance Centers (USEACs) to determine if they are meeting the goals and objectives as set forth by the Export Enhancement Act of 1992 and the Trade Promotion Coordinating Committee, and, if so, how effectively and efficiently they are doing so.

We examined the work US&FCS performs through the USEACs, the amount of resources involved, and the adequacy of oversight by management. We have also assessed the planning and implementation actions taken by US&FCS to capitalize on the experience of the first four pilot centers as it continues to open additional USEACs nationwide.

We conducted our evaluation at the four USEAC sites from December 1994 through January 1995. Additional work was conducted at various US&FCS field sites and proposed USEACs. Moreover, extensive inspection work was done at International Trade Administration headquarters in Washington, D.C., and more limited work was completed at the Small Business Administration and the Export-Import Bank of the United States. We examined pertinent documents and records and interviewed US&FCS, SBA, and Ex-Im Bank officials and staff members, as well as clients and numerous others who had been involved with the USEAC program.

The evaluation was conducted in accordance with both the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended. It was performed under the Quality Standards for Inspections issued by the President's Council on Integrity and Efficiency.

BACKGROUND

In Title II of the Export Enhancement Act of 1992, the Congress gave the Trade Promotion Coordinating Committee (TPCC) the legislative authority to undertake its goal of streamlining the federal government's export promotion activities. The following year, TPCC, under the chairmanship of the Secretary of Commerce, issued its first report to the Congress, in which it highlighted the problems confronting U.S. exporters seeking to take advantage of federal government programs and services. Namely, this report noted, as the Commerce Office of Inspector General, General Accounting Office, and others had previously reported, that there is a confusing array of federal agencies with often overlapping and even duplicative trade promotion efforts. The report cited the primary deficiencies resulting from this disarray to be: (1) the lack of one centralized place in which exporters could access domestic export services; and (2) the lack of full integration of trade finance assistance with information, marketing, and counseling services.

To improve the effectiveness of federal export promotion services, the report recommended the establishment of "one-stop shops to provide local export communities a single point of contact for all federal export promotion and finance programs."³ These one-stop shops would integrate representatives of the Department of Commerce, Small Business Administration (SBA), and Export-Import Bank of the United States (Ex-Im Bank). Within this mix of agencies, Commerce, through its U.S. and Foreign Commercial Service (US&FCS), would be the primary provider of export promotion and counseling services; SBA would promote and provide export capital and finance counseling; and Ex-Im Bank would focus exclusively on trade finance for exporters.

The establishment of one-stop shops was one of four recommendations the TPCC developed to accomplish the following six goals addressing federal domestic export promotion services:

1. *Develop a more rational, efficient, and coordinated delivery network through the establishment of one-stop shops.*
2. *Streamline the federal government's role in export promotion and trade finance.*
3. *Assure the delivery of consistent, high-quality, export-related information, trade leads, country and sectoral analysis and counseling.*
4. *Provide guidance and assistance on export finance strategies, programs, and resources.*

³ Trade Promotion Coordinating Committee, p. 14.

5. *Assist in matching client needs with the range of available public and private sector export service providers.*
6. *Support a network of export facilitation services that is competitive with those of U.S. trading partners.*

OBSERVATIONS AND CONCLUSIONS**I. EXPORT COMMUNITY VOCAL REGARDING THE USEAC PROGRAM****Overwhelming Optimism About the USEAC Program's Potential**

USEACs are expected to enhance and expand federal export marketing and trade finance services for small and medium-sized businesses through greater cooperation between federal, state, and local government, and private partners. By providing--ideally in one location--services that uniquely complement each other but historically have not been offered in an integrated manner, the USEAC concept aims to streamline and concurrently improve federal export services to U.S. exporters. This approach represents a significant shift in the way the federal government will carry out its U.S.-based export assistance programs. Not only is the new network of centers intended to place more trade specialists in closer contact with U.S. exporters, but the information technology support is being structured to improve their out-of-office counseling through the use of enhanced telecommunications and computer capabilities.

The USEAC concept expects that the government's primary domestic export promotion agency, the U.S. and Foreign Commercial Service, will take the lead and place its trade specialists nationwide in those areas with the highest concentrations of potential export clients. Government managers have identified those areas of greatest concentration by using such economic data from the 1987 Economic Census as: (1) the number of service establishments, (2) the number of manufacturing establishments, and (3) the dollar volume of manufacturing exports. With this data, they have begun to structure and implement a network of centers that can better serve U.S. exporters.

As we conducted our assessment of this monumental effort to fix the government's export promotion and export financing services, we were ever mindful that the most important test would be to determine how the export community feels about the new USEAC program. Hence, we interviewed, and held many discussions regarding the one-stop centers with, U.S. exporters, representatives from the private sector, as well as the federal, state, and local government personnel who are creating or working with the pilot centers. During these interviews, we were frequently reminded that too often in the past the federal system (1) has been unable to effectively and efficiently deliver export assistance services to U.S. companies, (2) has had gaps in services or unnecessary duplication of effort, and (3) was not "user friendly." Hence, the move to establish USEACs is, in their opinion, an important effort to streamline that system and eliminate these problems. It appeared clear to the export community experts that the anticipated benefit of streamlining and combining the federal government's export promotion and trade finance efforts should be realized through the collocation of, and greater interaction between, US&FCS, SBA, and Ex-Im Bank.

Again, it is important to note that, overwhelmingly, most interviewees were hopeful that the nation's domestic export assistance delivery system will now more successfully link the federal

government's trade finance resources with export marketing services. It was also the consensus of those representatives interviewed from the export community that the U.S. Export Assistance Center concept—if properly implemented—should be able to better utilize the considerable trade finance and trade promotion resources available through state and local public/private resource partners.

II. TESTING THE USEAC PROGRAM CONCEPT AT THE PILOT CENTERS

To develop and test a workable strategy and plan for implementing a network of USEACs, the Senior Policy Working Group: (1) opened the first four (pilot) USEACs; (2) developed a training program; (3) recruited the staff members; (4) planned the logistics for the individual sites; (5) monitored and assessed the pilot center operations; and (6) as appropriate, made some necessary adjustments and changes aimed at improving the USEAC program.

Clearly, restructuring the nation's delivery of export promotion and trade finance services was a monumental undertaking. In an effort to develop and hopefully maintain the participation and commitment of US&FCS, SBA, and Ex-Im Bank, it was decided that each of these first four sites would have one of the three participating agencies as the lead agency: US&FCS would be in charge of the Baltimore and Miami USEACs, Ex-Im Bank would lead the Chicago office, and SBA would manage the Long Beach site. All four sites were opened in late January 1994.

While the pilot sites were being created, TPCC, through its working group, evaluated other U.S. cities to determine the best location for 11 additional USEACs to be established in 1995. Starting with the same US&FCS resource allocation model used to identify states and cities with the greatest export-growth potential, the working group then applied qualitative factors, such as the existing export infrastructure and federal agency presence in the major cities, to make the final selections.

A. Testing Various Operational and Logistical Approaches Was a Good Idea

The four pilot sites were established in Baltimore, Chicago, Los Angeles (Long Beach), and Miami.⁴ The four pilots were intended to test several practical approaches and select the best features from them to subsequently improve the design and establishment of possible one-stop shops in additional sites.

In designing the pilot USEAC sites, the working group *correctly* recognized that no single design for one-stop shops would work nationally and, therefore, it developed three different approaches for the pilot sites as a means of testing the concept on a nationwide basis.⁵ These models were:

⁴ Trade Promotion Coordinating Committee, p. 14.

⁵ Trade Promotion Coordinating Committee, pp. 14-15.

- o **Model A:** Collocate all of the export-related resources of US&FCS, SBA, and Ex-Im Bank into an existing US&FCS office (Chicago).
- o **Model B:** Relocate and consolidate all export-related resources of US&FCS, SBA, and Ex-Im Bank into a world trade center, or comparable facility, with other public and private export promotion service providers (Baltimore and Long Beach).
- o **Model C:** Collocate all of the export-related resources of US&FCS, SBA, and Ex-Im Bank at a mutually agreed-upon site and, over a three-year period, shift the approach of the office from one providing direct client services (retailing) to one providing strictly indirect services (wholesaling) via local trade intermediary organizations, such as state offices and private sector providers of export promotion services (Miami).

We believe that US&FCS and the interagency working group should continue to be flexible in allowing the best particular "model" to be adopted by the remaining hub USEACs that most effectively and efficiently capitalizes on the resources (federal, state, local government, and private sector) available in each city. It is also important to note that while it appears to take a good deal of time and effort to identify the available resource partners, assess their level of commitment, assess the resources and expertise they can commit to a joint export assistance effort, and secure that commitment, it has been shown to be essential to have as many as possible of these issues resolved early. This is important since during our review, we frequently heard that the timetable for rolling out the remaining USEACs is driven more by the momentum of political expediency rather than by the planned and deliberate evolution of each community to be in a position to fully support and participate in the USEAC's activities.

B. USEACs Have Potential to Address National Export Strategy's Goals

As noted, the primary purpose behind the creation of Export Assistance Centers was to incorporate the federal government's trade finance efforts with its export marketing activities. In TPCC's initial report to the Congress in 1993, the establishment of one-stop shops was one of four primary recommendations aimed at accomplishing the specific six goals for federal domestic export promotion services. The USEACs are crucial to the federal government's pursuit of these goals.

Although the establishment of all USEACs is far from complete, as we examined the pilot centers and conducted additional evaluation work on the USEAC program, we concluded that there is sufficient evidence to suggest that US&FCS and other government officials are actively pursuing the following prescribed six goals:

- 1. Develop a more rational, efficient, and coordinated delivery network through the establishment of one-stop shops.*

SBA, Ex-Im Bank, and, in particular, US&FCS officials should be commended for their efforts thus far in working together to develop and promote the USEAC network--a network that clearly has the potential to become a coordinated delivery network of quality services for U.S. exporters.

2. Streamline the federal government's role in export promotion and trade finance.

US&FCS, SBA, and Ex-Im Bank--through their collocation and with their commitment and increased efforts to work with city, state, and local governments, and private partners--have, in fact, begun to streamline the federal government's role in export promotion and trade finance.

3. Assure the delivery of consistent, high-quality, export-related information, trade leads, country and sectoral analysis and counseling.

While only time will tell how things will operate under the USEACs, US&FCS trade specialists continue to have primary responsibility for gathering export-related information through contacts at overseas posts and other sources. Fortunately, US&FCS already has a fairly good reputation for its trade data system and capabilities. Such data should improve under the USEAC program and will be available to any client using a USEAC.

4. Provide guidance and assistance on export finance strategies, programs, and resources.

Ex-Im Bank and SBA are expected to have the lead on "finance" strategies and related issues. There are some problems that require management's attention, but the existing expertise and ongoing training of USEAC staff should ensure that they are better prepared to assist clients in developing export finance strategies and programs, and in identifying export opportunities.

5. Assist in matching client needs with the range of available public and private sector export service providers.

The pilot one-stop shops have demonstrated their ability to coordinate trade finance and export promotion efforts with the state and local governments as well as with private sector resources to better assist their clients.

6. Support a network of export facilitation services that is competitive with those of U.S. trading partners.

It is the general consensus of many in the export community that the U.S. government

has not invested a level of funding and resources comparable to that of our major competitors. It is hoped, however, that with the establishment of the USEAC network, the United States will be in a more competitive position.

Notwithstanding some of the concerns discussed later in this report, the establishment of one-stop shops, or Export Assistance Centers, clearly has the potential to result in a more rational, efficient, and coordinated delivery network, compared to the past, when exporters were unaware of, or unable to access, many of the available federal export assistance services.

C. US&FCS Has Not Properly Tested "Hub and Spoke" Component of USEAC Concept

Recognizing that the federal government lacked the funding and resources necessary to fully staff one-stop centers at all key locations, the Senior Policy Working Group, an interagency working group of US&FCS, SBA, and Ex-Im Bank senior officials, further devised a "hub and spoke" approach to its USEAC network. The "hubs," or regional Export Assistance Centers, will be those sites where all three agencies collocate to integrate their export marketing and trade finance assistance, with trade specialists and finance specialists to provide direct counseling to clients while also wholesaling government services to the district EACs and public/private partners. The "spokes," or district Export Assistance Centers, which will utilize the network of existing US&FCS district and branch offices, will be the satellite offices linked operationally to the hubs (see map, at Appendix B). The spokes, with their limited resources, will be highly dependent on the hubs and, thus, are expected to establish and maintain strong links with the hubs and use them to offer clients specialized trade finance assistance. At the same time, the spokes are also intended to enable US&FCS to better distribute its field offices and staff resources by placing them closer to their clients. Present plans call for US&FCS to open a total of 33 new offices to complete the hub and spoke network by the end of 1996. The overall plan for the USEAC program, for 15 hub locations connected to 83 spokes. It remains to be seen whether the total number of USEAC sites is feasible, given the continuing constraint on federal resources.

While the hub and spoke network may work well in concept, there are serious questions and concerns whether the network will, *in practice*, work as envisioned because most of the hubs but only a small number of spokes have thus far been established. During our interviews and discussions with many USEAC clients, US&FCS field staff, as well as public and private sector personnel actively involved in the support and rollout of the USEAC program, there was a great deal of concern and skepticism about the spokes' ability to offer and deliver the full range of one-stop trade services. They, too, note that in concept, the hub and spoke network sounds possible. However, it is not clear whether, or how, the spokes will operate under the hubs to provide a coordinated, expanded, menu of services while staffed only by US&FCS personnel. At this point, US&FCS officials and

other program managers have decided, in the interest of time and political expediency, to roll out the USEAC network and *assume* that the hub and spoke aspect of the concept will work in practice. Unfortunately, there is risk associated with this assumption--especially in view of some of the other issues confronting the USEAC program that are discussed in this report. This, in our opinion, is a major flaw in planning and testing the USEAC concept, and could potentially prove to be problematic as the USEAC network is rolled out.

The few spoke centers that were open during the testing period did *not* afford program managers the levels of review and evaluation to see if the concept would work in practice. We found, for example, that while the district EAC, or spoke, in Ontario, California, was opened in April 1995, it cannot be considered a test of the hub and spoke network. To constitute a proper test of the concept, (1) the Long Beach USEAC hub should have had most, if not all, of its spoke offices opened at the same time, allowing the spokes to *make* and *test* the normal demands on their hub while it was open and operational for a designated period, and then (2) thoroughly evaluate the operating relationships of a fully operational hub and its corresponding spokes. Clearly, this was not done.

While the hub and spoke network may work well in concept, there are serious questions and concerns whether the network will, *in practice*, work as envisioned. During our interviews and discussions with many USEAC clients, US&FCS field staff, as well as public and private sector personnel actively involved in the support and rollout of the USEAC program, there was a great deal of concern and skepticism about the spokes' ability to offer and deliver the full range of one-stop trade services. They, too, note that in concept, the hub and spoke network sounds possible. However, it is not clear whether, or how, the spokes will operate under the hubs to provide a coordinated, expanded, menu of services while staffed only by US&FCS personnel. At this point, US&FCS officials and other program managers have decided, in the interest of time and political expediency, to roll out the USEAC network and *assume* that the hub and spoke aspect of the concept will work in practice. Unfortunately, there is a risk associated with this assumption--especially in view of some of the other issues confronting the USEAC program that are discussed in this report.

At this point, we believe that US&FCS officials must take aggressive actions to properly test the hub and spoke structure and, hopefully, clearly demonstrate to the export community and other concerned interests, how this structure *can* and *does* work. As we discussed our concerns with US&FCS officials, we recommended that they identify one of their better regional hub and spoke networks and give it the resources and support it needs to demonstrate its potential to work successfully. We hope that by providing the proper managers, staff, funding, equipment, and other resources, US&FCS managers will be able to create and operate a "showcase" regional hub and spoke network that will, in fact, test and promote the validity of the spokes' capacity to achieve the expectations of a one-stop trade operation. Should this test highlight weaknesses in the successful

operation of the network, we are hopeful that the problems can be immediately addressed throughout the system.

In its response to our draft report, US&FCS states that "Phase 1 of the hub and spoke system was designed to provide trade finance support from the USEACs to the DEACs." US&FCS officials further stated that the Baltimore USEAC had conducted "considerable training and outreach" to its three spoke sites and was *planning* further trade finance support to its DEACs in the future. This is a good *start*, and potentially addresses the issue of "*how*" hubs and spokes *may* work; but it underscores our primary concern that the *actual* workings of the hub and spoke concept have *not* been properly tested.

Further, our recommendation that US&FCS establish a "showcase" hub and spoke network in one region should not have been interpreted as an endorsement of a particular or a "cookie cutter approach" to designing future hubs and spokes. Quite the contrary: we intended to encourage USEAC program managers to promptly put into place a working--and hopefully successful--hub and spoke network of their design that will clearly demonstrate the feasibility of subsequent, even different, hub and spoke network models. This clarification was discussed recently with senior US&FCS officials.

D. Other Observations and Concerns Highlighted

Better Interagency Cooperation Envisioned

While the collocation of US&FCS, SBA, and Ex-Im Bank in USEACs cannot *guarantee* better export assistance to U.S. companies, it is apparent, at a minimum, that it does (1) foster closer ties and (2) strengthen information exchanges that can lead to better coordination of export assistance.

The delivery of consistent, high-quality export-related information, trade leads, country and sectoral analysis, and counseling traditionally provided by US&FCS should continue through the USEACs. But more importantly, we believe that over time, these services will be enhanced by (1) greater and more convenient access to trade finance data and support, and (2) the additional cross-referral of clients not only through SBA and Ex-Im Bank staff, but also through state and local public and private resource partners. This interaction with their non-federal counterparts will enable US&FCS trade specialists to broaden their knowledge of export-related trade information sources.

SBA and Ex-Im Bank Support Is Limited

Although the guidance and assistance involving export finance strategies, programs, and resources is aided by the presence of SBA and Ex-Im Bank in the first few USEACs, we

are concerned that these resources will not be as readily available in future USEACs. The original plan (and Memorandum of Understanding) for the USEACs called for SBA to assign two loan officers to each of the Pilot sites and to assign an average of one, but up to four staff at the subsequent sites. Although SBA was able to keep to this plan with the first four sites, it is now faced with resource constraints and reportedly will only be able to allocate one loan officer to the remaining 11 USEACs. We are concerned that this will limit the volume of SBA trade finance business that those sites will be able to handle. (See page 23.)

Additionally, Ex-Im Bank has no plans to change its field structure or reallocate its staff resources to accommodate the new expanded (hub and spoke) network of USEACs. Ex-Im Bank has determined that its existing network of five regional offices, and its city/state program to distribute Ex-Im Bank lending authority locally, will provide the necessary national coverage for the USEACs. We have two main concerns with Ex-Im Bank's position: (1) the regional offices will not be able to handle the expected increase in demand for trade finance services; and (2) the city/state program is largely inactive (only 8 of the 30 city/state program participants are active at the time of our review) and generally lacking in expertise (see page 28 for further discussion).

In response to our draft report, US&FCS suggested that they previously envisioned more SBA staffing support than has occurred. At the same time, however, US&FCS states that notwithstanding their expectation that SBA's would staff all of the USEACs with two SBA employees, they have received no indication from their field offices or clients that the limit of one SBA person at most of the subsequent 11 USEAC sites has significantly impacted their ability to provide trade finance services.

In its response to our draft report, SBA emphasized that they had only promised two SBA employees for each of the four pilot sites and one employee at each of the subsequent 11 USEAC locations. Further, SBA also states that the lending and small business communities have not complained to SBA regarding this situation.

In response to our draft report, Ex-Im Bank maintains that its distribution of field staff to five regional offices, coupled with its network of city/state program partners, is still valid and should be adequate to handle all trade finance issues that may arise. We remain skeptical whether all of the members of the Ex-Im Bank's city /state program are qualified to render consistent and accurate information concerning Ex-Im Bank's loan and credit guarantee programs.

Although US&FCS officials have advised us that present experience indicates that the USEACs have adequate trade finance resources, we stand by our recommendation that US&FCS continue to press SBA and Ex-Im Bank to augment the resources they have

committed to the USEAC program. Likewise, it is worth emphasizing again that a key component of the "one-stop" export assistance center concept involves making certain that U.S. exporters have readily available—in addition to the US&FCS's traditional export promotion assistance—a high caliber of trade finance expertise and assistance.

US&FCS has agreed to: (1) prepare a decision memorandum for the Secretary of Commerce to meet with the Acting Chair of Ex-Im Bank to discuss increasing Ex-Im Bank resources devoted to the USEACs; (2) urge SBA and Ex-Im Bank to use support service contracts to obtain trade finance specialists for the USEACs; and, (3) explore the possibility of hiring trade finance specialists to augment existing SBA and Ex-Im Bank resources.

US&FCS Site Selection Process

To identify the most feasible locations for the first four USEACs, US&FCS developed a matrix using five criteria: (1) the concentration of established, export-ready businesses; (2) the presence of an existing export infrastructure and partnership network at each location; (3) the opportunity to test separate and distinct operating models; (4) geographic diversity; and (5) the presence of existing resources available within US&FCS, SBA, and Ex-Im Bank to service each USEAC.

Thus far, the first four pilot USEACs appear to be in good locations. Baltimore and Long Beach are each located in a World Trade Center, whereas Chicago and Miami are located in commercial buildings. All four of these locations are non-government facilities that allow easy access for business people, an important factor to consider in the selection of future sites. The world trade center location frequently offers several features. Some of the city and state partners may also be located there, allowing the USEAC to develop a relationship with these partners. It is also very convenient to refer clients from one agency to the other, as well as to be able to escort the client to the other office. Three of the four USEACs are in office buildings shared by some form of city or state trade/exporting partner.

Although US&FCS has identified a matrix for selecting locations for the USEACs (hubs) and district EACs (spokes), there are constraints beyond US&FCS's control. Congressional earmarking has influenced the choice of locations for two of the projected district EACs (Somerset, Kentucky, and Greenville, South Carolina). When earmarking occurs, there is greater potential for distorting and undermining the basis for the development of a resource allocation matrix to place these centers in the most effective locations. In our 1993 report assessing Commerce's export efforts, we stated "congressional earmarking of positions in district offices is a significant impediment to the

allocation of domestic resources.”⁶ In order for the USEACs and district EACs to effectively render their services, they should be placed in locations that would most effectively benefit exporters.

One of the key concerns we have with the USEAC program is what appears to be the lack of an overall strategy for implementing the program. We have been furnished a list of nearly 100 cities that represent the first two phases of the USEAC program rollout. US&FCS officials have said that the USEAC program may stretch beyond the first two phases of 15 USEAC hub locations and ultimately result in as many as 19 hubs. Unfortunately, we do not have a sense from the US&FCS as to *when* they will finally get “there”—in terms of completing the national hub and spoke network of USEACs. We believe US&FCS, with the Senior Policy Working Group, should develop its national strategy, field structure, and resource needs to enable the decision-makers to have a blueprint, full-cost estimate, and implementation plan, with timetable, for completing the entire USEAC program.

E. Many Generic Issues Addressed, While Others Warrant Management Attention

One of the most encouraging observations made during our review of the pilot USEACs was the realization that both exporters and USEAC professionals *are*, in fact, benefitting from the collocation of export marketing and trade finance functions. At the time of our visits to the four pilot sites, the benefit to exporters had been limited to client counseling and outreach. We have since learned of several instances in which the USEAC not only furnished the counseling for export marketing and trade finance, but an export action resulted with a loan guarantee as well.

♦ USEAC Training: Initial Lack of Focus Has Improved

In late 1993, the Senior Policy Working Group planned and conducted the initial training program in San Diego. Personnel from the first four USEACs were cross-trained on export marketing techniques used by US&FCS and on the trade finance programs of SBA and Ex-Im Bank. Representatives from the Overseas Private Investment Corporation, U.S. Agency for International Development, Trade Development Agency, and other organizations also presented information on their programs.

⁶ “Assessment of Commerce’s Efforts in Helping U.S. Firms Meet the Export Challenges of the 1990s,” U.S. Department of Commerce, Office of Inspector General, Report No. IRM-4523, March 1993, p. 10.

The agenda for the training session was one week of export marketing training followed by a second week of trade finance training. The agenda was structured to include lectures, team building exercises (which included analyzing case studies), and activities to aid each office in planning a strategy for accomplishing its mission. The first week of training also addressed the goals, objectives, administrative matters, and expectations of the USEAC as well as allowing the participants to express their concerns about the project. The first week's focus on export marketing included such topics as: pre-screening potential export-ready clients, assessing client potential, identifying potential markets, and market entry strategies. The second week of training, with its focus on trade finance, included topics such as: basic financial analysis of profit and loss statements and balance sheets, building international banking relationships, export loan approval criteria, handling methods of payment, pre-export financing, credit insurance, and post-export financing.

At the conclusion of the training, participants completed an evaluation form, in which they raised concerns about the: length of the training session, quality of finance training, and inappropriateness of some case studies. Based on the evaluations, several recommendations were made to: (1) shorten the training program; (2) require that SBA communicate clear, in-depth information on when and how to apply for its trade finance program; (3) schedule the participation of other federal agencies in priority order and introduce their programs as practical tools for counseling clients; (4) integrate trade finance and export marketing throughout the training program rather than presenting them as separate components; and (5) establish guidance for additional training in such areas as computers, policy initiatives (Best Emerging Sectors, Big Emerging Markets), new finance programs, and additional export marketing training.

US&FCS re-evaluated the structure of the USEAC training based on the comments and suggestions from the initial training, and redesigned and improved the program to now consist of four sessions: three days for each session, with 120 participants in total. It will be mandatory for US&FCS personnel to attend the trade finance training before the USEAC team training, thus providing them with increased trade finance knowledge, skills, and tools in advance of the interagency training. The four sessions will be attended by a mixture of all the offices to avoid the closing of any office.

The improved USEAC team training will be scheduled in five sessions of four days each with facilitators from the Xerox Corporation, US&FCS, and SBA, each session having a maximum of 40 participants. The objective of this training is to build a USEAC team with both the understanding of and commitment to the USEAC mission. The USEAC team training includes US&FCS regional directors, SBA district directors, and district EAC representatives, as space allows. Ex-Im Bank, unfortunately, will not be a part of the team training, because they will not have a full-time presence in the remaining 11 USEACs.

It is very important that SBA and US&FCS receive substantive training in trade finance, particularly in those aspects relevant to the programs of Ex-Im Bank, because of that agency's absence in the remaining 11 USEACs. Cognizant Ex-Im Bank officials stressed the importance of SBA and US&FCS employees assigned to the USEACs having the basic knowledge of several of their loan programs, including: (1) working capital guarantee (jointly with SBA); (2) short-term capital insurance; (3) medium-term guarantee; and (4) medium-term capital insurance.

US&FCS, correctly, appears to have placed a stronger emphasis on trade finance training for its trade specialists in the USEACs. US&FCS senior management explained the reason for this emphasis is partly a result of their perception of the lack of commitment on behalf of SBA and, especially Ex-Im Bank. After evaluating the first session of finance training, USA&FCS felt it was necessary to re-evaluate the training program, particularly the trade finance component. We spoke to a number of US&FCS trade specialists and district directors following the second phase of the trade finance training, several of whom felt the training was well presented, had excellent facilitators, and addressed subjects that will be useful when meeting with clients who may need trade finance assistance. However, some trade specialists had a slightly different perspective, believing that the training was simplistic or elementary, and did not provide enough information about letters of credit, methods of payment, and accounting terminology. Most of the more experienced trade specialists felt the training was better suited for either entry-level trade specialists or trade reference assistants, and suggested that US&FCS consider holding two trade finance training sessions, one for junior and one for senior trade specialists.

US&FCS will be relying heavily on its own trade specialists to partially fill the void in the absence of Ex-Im Bank. For this reason, and in light of other pressures on ITA fiscal resources, we strongly believe that US&FCS should make every effort to place a high priority on sustaining a strong training program for the domestic field staff.

In response to our draft report, US&FCS described its considerable accomplishments in trade finance and USEAC training for 1995, and outlined its training objectives for 1996. We expect US&FCS to continue placing training as a top priority and allocate sufficient funds to complete the schedule.

♦ Joint Counseling: A Positive Component in USEAC Operations

Joint counseling was always intended as one of the essential and key operating components in the USEACs to better provide clients with information on the services available through the three participating agencies. US&FCS, SBA, and Ex-Im Bank all participate in conducting joint counseling, which benefits not only the client with the wealth of information provided, but also the USEAC staff members, who receive cross-

training in each other's programs and products.

The long-term expectation is that joint counseling will become less crucial as the USEAC staff members become more thoroughly cross-trained in the export assistance products and services of the USEAC partner agencies. In cases where US&FCS may need to hire employees outside the agency, and with the realization that Ex-Im Bank will probably not have a presence in the next 11 USEACs, it is important that US&FCS managers identify candidates with some experience in trade finance as well as export marketing. Such a dual background would help to fill gaps in the experience of the USEAC staff. This would also help expedite the cross-training of USEAC staff. For example, one of the Ex-Im Bank employees in the Chicago USEAC had an undergraduate degree in marketing and a graduate degree in finance. With this educational background, the employee was able to more readily grasp the marketing focus of US&FCS's export promotion programs.

Joint counseling was initially not well received or implemented in all four of the pilot USEACs. For example, the site director of the Long Beach USEAC did not encourage the staff to conduct joint counseling, and when it was conducted, the counseling team was usually directed to hold the session at the USEAC office. This did *not* meet with the initial design of joint counseling. Since our earlier visits to the field, we have learned that this site director has adopted a more flexible approach, although the expectation is that when the SBA loan volume increases, the SBA loan officers will be required to focus on loan processing and will not be available for joint out-of-office counseling visits. We reiterate that site directors must encourage all of their USEAC staff to conduct joint counseling to the maximum extent possible, and especially at the convenience of the client.

In their response to our draft report, SBA officials took exception to the tone of our observation that the Long Beach USEAC needed to improve its efforts to promote joint counseling of its clients, and stated that joint counseling was being conducted there on a regular basis. We did say that, based on our observations during our site visit, joint counseling needed to be improved by the Long Beach USEAC *and*, subsequent to our visit, the site director had adopted a more flexible approach. To be more explicit, we believe the Long Beach site director has corrected the problem and no further action is needed.

◆ USEAC Outreach: Important Service to Business Community, Must Be Better Targeted

With the introduction of the USEAC program to the export community, the opportunity has been seized through grand openings for each of the sites to reach out to potential export clients. Although the grand openings include many officials from federal agencies, state and local governments, and local businesses, they still reach only a small portion of

the export community. The site director, therefore, has the responsibility for developing and planning the outreach opportunities for the USEAC. During one of our site visits, USEAC personnel complained that the site director did not have a strategic vision for the center. The staff viewed this as a shortcoming for the center and felt that it had a negative impact on seizing opportunities for increasing the USEAC's outreach in the local business community. Some personnel at headquarters believed that site directors should have some knowledge of and background in international trade. Not having this experience may hinder site directors from aggressively promoting the USEAC and the services available.

While visiting the four pilot centers, we talked to numerous clients of the USEACs and received a mix of responses. Some clients felt that the USEAC was not well-known, if at all, in the business community. Further, many business people were not aware of the specific services available. Others were informed of the center through either business contacts or an export seminar. One client and a resource partner we interviewed felt that outreach was unnecessary, claiming that exporters already are aware of U.S. government services and seek such help only when they need it. We believe that such a viewpoint is in the minority and maintain that outreach is still very important and that USEACs need to reinforce their message periodically to the export community.

One venue for USEACs to conduct their outreach is both through and with their local public or private resource partners. When a USEAC hosts an event with a resource partner, it is very important to confirm the sponsor's qualifications and assess whether the intended audience is part of their target market. Also, USEACs must determine the most cost-effective and promising opportunities in which to participate. Basically, the sponsor must be credible, the audience must be one the USEACs have targeted, and the event must be one that the USEACs have determined to be a high priority in their outreach program.

Marketing is also an important component of the USEAC and its outreach. The export client assignments for US&FCS personnel are structured differently, depending on the location, with some sites dividing the assignments by industry and some by geographic location. Long Beach, for example, assigns its trade specialists by geographic territory, because it is home to numerous industries, whereas in Chicago, because there are fewer industries, the trade specialists' assignments are focused on specific industries. It is important that each trade specialist find a niche in his or her area, be it territory or industry, and manage and develop it to determine the most productive ways to identify export-ready companies.

The USEAC must research who its target market is, assess opportunities overseas, and identify who the likely local manufacturers and other export-ready companies who could benefit from the USEAC's services. For example, trade specialists with geographic industry assignments could identify the top 10 industries in their territory, and conduct specific research on those industries. This approach would allow the trade specialists to

focus their efforts on those industry sectors with the highest export potential in their geographic market. Trade specialists with individual industry assignments could do in-depth research in their industries for specific export opportunities.

At the time we interviewed them, the USEAC site directors believed their individual marketing efforts had been hampered by the absence of printed brochures. Without any guidance or coordination from Washington, each center had been developing its own marketing materials. These brochures were reproduced by photocopier, resulting in poor copy quality. By contrast, Ex-Im Bank has developed an excellent brochure, however, rather than describing the entire range of USEAC programs and services, it only illustrates those of Ex-Im Bank. We are pleased that the site directors have urged their headquarters in Washington to develop a brochure that will have both a national and a local focus and can be used by all of the centers.

The USEAC staff works in several ways to develop a client base. Some clients are referred by word of mouth from another USEAC employee. We found that each agency participating in the USEAC had referred potential clients to each other. This is in addition to those clients developed as a result of the joint counseling conducted by the USEAC staff. Client development can also be established through outreach efforts. The participation of USEAC site directors and personnel in export/trade finance seminars is an excellent method of identifying potential exporters. Client development, through outreach to the export community, is critical to the success of the USEACs.

In its response to our draft report, US&FCS states that its marketing efforts have been improved with the production and distribution of a professional quality EAC brochure to all of the EAC offices.

◆ USEAC Site Director Authority

The four USEAC site directors we interviewed were unanimous in citing confusion and misunderstanding regarding (1) site director authority and USEAC goals, (2) staff performance plans and appraisals, and (3) budget and procurement authority.

While it is an innovative step for US&FCS, SBA, and Ex-Im Bank to combine their resources and staff in an attempt to better serve the U.S. exporter, the heart of the matter is that a USEAC still represents *three independent agencies*. Each agency still evaluates the performance of its personnel and has its own budget to conduct its export assistance program. Further, it must be understood that by establishing USEACs, each of the member agencies brings its specific international trade expertise, product, or service to one collocated site. At a USEAC, an exporter will not find a distinct USEAC product or

service but, rather, the respective US&FCS, SBA, and Ex-Im Bank programs and personnel who have the specialized knowledge and authority to consummate a transaction in any of those three areas of export assistance.

A USEAC, then, represents three agencies attempting to project a common mission and interest in helping exporters. The task, therefore, of the USEAC site director must be to coordinate the resources of the three member agencies to improve export assistance. Unfortunately, at the time of our review, the site directors did not yet have the authority to direct other agencies to perform specific tasks. The management and supervision of each agency's staff falls to the senior agency person in charge of that unit. The staff members with each of the partner agencies are still being evaluated under their parent agency's performance plan and appraisal standards, with no input from the site director. Areas of common ground for which staff could be evaluated include critical elements linked to their USEAC responsibilities, such as participation in trade seminars, public outreach, and joint counseling opportunities. What the site directors seek is some level of input, possibly up to 30 percent, which they can add to the performance appraisals of all USEAC staff. Thus far, no progress has been made on this matter. We recommend that US&FCS, with and through the Senior Policy Working Group, act on this matter in its next meeting.

USEAC site directors also find themselves lacking the resources to undertake USEAC program objectives that would serve to the mutual benefit of all three agencies. Such opportunities as a USEAC outreach program or a local marketing effort are somewhat stymied by the lack of a discretionary budget available to the site directors. Rather than "pass the hat" to the other agencies for contributions to a collective effort, the site directors believe a small pool of resources would enable them to act quickly to take advantage of local opportunities without having to modify cost-sharing agreements or get their respective Washington headquarters personnel involved.

We wish to underscore these two problems--the lack of authority and resources--because they reveal an important underlying issue for the USEACs--that is, they must operate, and be perceived to be operating, as one integrated entity. This has yet to happen because each of the three agencies still approaches the USEACs from its individual perspective.

In response to our draft report, US&FCS management is exploring alternative interagency funding mechanisms to enable site directors to have more authority over aggregate USEAC budgets. Other issues, such as providing site directors with management control over all USEAC participants and implementing a more comprehensive performance appraisal system, are under review. Finally, US&FCS is considering improved financial reporting software packages to help facilitate the budget allocation process.

F. Site-Specific Concerns at Pilot Centers Partially Remedied

Baltimore

For the first four USEACs established, SBA recruited from its field offices nationwide. This effort did not always accomplish its intended result of selecting candidates with extensive international trade experience. In the Baltimore USEAC, SBA advertised for and recruited two business development officers (BDOs). The USEAC site director stressed that he needed loan officers, specialists who could counsel individual exporters on the proper financing needed for their export transaction, not BDOs. He said that the local SBA district office did not need more BDOs and that he would need top-level approval from SBA to move these two BDOs elsewhere. This problem stemmed from SBA's failure to completely understand the role that its team would serve in the USEAC.

After our visit, we discussed this matter with SBA headquarters officials and learned that the situation was being resolved. One of the persons hired as a BDO sought, and was granted, a transfer and the other is undergoing intensive loan officer training. Furthermore, to ensure that they recruit loan specialists with some international trade finance experience, SBA managers have revised the duties and responsibilities in the job announcement posted for SBA employees and restructured the selection process by which USEAC positions are filled. Whereas the applicants for the four pilot centers were selected by the SBA district directors, who have marginal responsibilities to complete international trade loans, SBA's Office of International Trade in Washington now makes the selections, with the advice of the USEAC's local SBA district director. Finally, it should be noted that SBA is operating under stringent budget conditions that could have possibly undermined the selection of the most qualified applicant. All of the USEAC positions will be selected from current SBA employees.

A second matter which may not be unique to just the Baltimore USEAC is the Ex-Im Bank's city/state partner, the Maryland Industrial Development Finance Authority, whose responsibility is to serve as an authorized agent for Ex-Im Bank, counseling USEAC clients on Ex-Im Bank trade finance and credit insurance programs. As we mention elsewhere in this report, MIDFA has an excellent reputation in the export community. The only question we raise for US&FCS is that MIDFA also endeavors to increase maritime shipping into and out of the Port of Baltimore and, thus, a potential conflict may result when Richmond, Virginia, becomes a spoke to this hub and seeks financing from Ex-Im Bank via help from MIDFA, whose allegiance would be to first helping Maryland companies.

In response to our draft report, SBA states that it assisted in the initial design of the USEAC program. We are aware of this. We are also aware that SBA did not initially hire

its team members for the Baltimore USEAC with an eye toward the trade finance skills and experience necessary to implement the EAC concept. This was apparent during our site visits to Baltimore. Moreover, in an interview at SBA headquarters, a senior SBA official overseeing the program admitted that the initial selection of SBA staff for the pilot USEACs did not focus on international trade finance skills but instead sought SBA employees with a more general, business development background interested in working in Baltimore. Fortunately, SBA and the USEAC recognized the problems associated with this approach and made revisions to the vacancy announcements and the process by which the hiring decisions were subsequently made.

In their response to our draft report, Ex-Im Bank explained that the potential conflict discussed above regarding Ex-Im Bank's city/state partner in Baltimore should not exist. Ex-Im Bank states that the exporter in this case would be referred to the Ex-Im Bank city/state partner in Richmond, the Virginia Small Business Finance Authority.

Chicago

The Chicago USEAC experienced many of the startup problems we found at the other sites (chaos of initial opening, USEAC training, etc.). Chicago is the only USEAC where Ex-Im Bank was given the opportunity to be site director. Although responsible for managing the USEAC, the site director has a heavy travel schedule, for he is Ex-Im Bank's regional manager for 14 states, and must often be away from the USEAC, developing business within the region. One result of this has been slower progress in integrating the three agencies in Chicago. At some of the other sites, for example, the directors have held all-hands staff meetings that have had a more positive effect toward cross-training and client referral. In the Chicago director's absence, a capable US&FCS senior trade specialist, formerly the district office director, manages the USEAC. This stopgap measure helps, but it is still important that the full-time site director be an integral part of the integration of the three agencies at the USEAC.

Another issue with the Chicago site was the inefficient use of staff and the limited integration between the agencies. According to the allocation matrix, the US&FCS group appeared to have more staff than needed. Further, the senior trade specialist announced his intention to hire another trade specialist, although the office had at least one trade reference assistant with several years of experience who might qualify for the position. Most recently, we have learned that the Chicago USEAC plans to open one of the nearby spoke offices (Gary/Hammond, Indiana) and must recruit a trade specialist for this office, because the two trade specialists in the USEAC, though seemingly qualified, are not interested in this location. US&FCS management must take a strong position on situations such as this and reassign, "for the good of the service," its personnel to assignments and locations where they are most needed, and best utilized, to carry out the agency's mission.

Long Beach

The decision that the Long Beach site should be led by SBA has created a great deal of friction between SBA and US&FCS. The SBA official chosen to be the Long Beach USEAC site director lacks the international trade experience that would generally be expected for such a position. During our visit to the Long Beach USEAC and in conversations with both SBA and US&FCS staff, we found that US&FCS employees are concerned about their effectiveness in Long Beach, in spite of SBA's efforts to address the issue. US&FCS employees stated they were concerned that the USEAC was not conducting an aggressive outreach campaign, because the site director did not feel confident discussing international trade topics with the export community which, in their eyes, undermined the credibility of the USEAC. Also, it was said that the site director discouraged joint counseling sessions unless they took place at the USEAC.

We have spoken at length with the site director and with senior US&FCS and SBA officials to determine what the situation is and what should be done. At this point, we believe the site director has been made fully aware of the US&FCS concerns and is attempting to resolve them.

Another concern we have with the Long Beach USEAC is the rollout of the spokes for this area. During his visit to the area in April 1995, the Secretary of Commerce announced the opening of the Long Beach USEAC's spoke office in Ontario, California. This location is one of nine spokes (seven in California, and one each in Arizona and Hawaii) to be connected to Long Beach. Ideally, all of the spoke offices connected to the same USEAC should be opened simultaneously, or at least about the same time--thereby clearly establishing the full network for that USEAC hub. We also understand that the US&FCS plans to open soon the spoke office in Oxnard, California. However, according to a US&FCS official, the addition of another trade specialist for the Ontario office would probably be of more immediate benefit to the export community because of the heavy demand on that office.

In its response to our draft report, SBA deserves credit for highlighting the problem stemming from the decision by US&FCS to keep its district director at the Los Angeles District Office rather than re-assign that person to the Long Beach USEAC. During our site visit to Long Beach, we found that the USEAC had three US&FCS staff members assigned to that site, with the senior trade specialist deemed to be the manager of that contingent. Meanwhile, the senior US&FCS manager for the entire Southern California area continued to be assigned to the Los Angeles District Office. In other USEAC sites we visited, such as in Chicago and Miami, all senior managers for all three agencies were assigned to the USEAC. The fact that the senior US&FCS manager is not collocated with the other managers at the Long Beach USEAC site is believed to have had a negative

impact on USEAC operations and contributed to the strained relations between SBA and US&FCS. Through follow up conversations, we have learned only recently that US&FCS has decided to re-assign their senior US&FCS official in Los Angeles to the USEAC in Long Beach. We have learned further that the senior managers represented by the Senior Policy Working Group have recently discussed the possibility of US&FCS assuming the lead role in managing all USEAC sites, thereby relieving SBA and Ex-Im Bank of the responsibility of managing the Long Beach and Chicago sites, respectively. No decisions have yet been made concerning US&FCS management of the entire network. The OIG will continue to monitor the situation.

We believe the decision by US&FCS to re-assign its senior manager to the Long Beach USEAC is correct—and long overdue. The possibility of US&FCS ultimately assuming management responsibility for all USEAC sites seems inevitable, and would correct some practical concerns (e.g., the SBA director for Long Beach lacked the proper international trade background, and the Ex-Im Bank director for Chicago frequently travels on Bank business). However, the latter action should not be taken without the full support and cooperation of SBA and Ex-Im Bank. US&FCS should not create the perception that the USEACs are solely a Commerce entity. Such a perception would run totally counter to the intent of the TPCC and its National Export Strategy.

Miami

In Miami, the USEAC opened in January 1994 with no permanent site director. US&FCS recruited a returning Foreign Commercial Service Officer as site director, but he did not assume the position until the summer of 1994. In the meantime, a US&FCS trade specialist served as acting director. This lack of a permanent site director fostered a climate of uncertainty and delayed the on-site efforts to integrate the three agencies at the USEAC. Employees expressed concern that the office was allowed to “drift” during this period. Since assuming the reins of the USEAC, the site director has attempted to keep all of the partner agencies informed of developments and holds frequent all-hands staff meetings. We do not get the feeling, however, that the site director is the clear authority for the USEAC—it is more a case of consensus management. It is critical, therefore, that the site director and agency teams for the new USEACs be selected prior to their opening. For example, we are concerned that the same mistake has been repeated with the recent opening of the New York USEAC.

III. ROLLOUT OF USEAC NETWORK FACES UNCERTAINTY

Following the establishment of the first four USEACs in January 1994, the Senior Policy Working Group continued to plan for the rollout of the remaining 11 regional centers to begin by the summer of 1995 and be completed by the end of the year. US&FCS officials predict the entire hub and spoke network of offices should be completely established by the end of 1996. By that time, the USEAC network should have fundamentally changed

how and where export assistance services will be offered to the export community.

One of the strengths of US&FCS has been its network of domestic offices, although their locations had been heavily influenced by state boundaries. The new hub and spoke design for the USEACs is based on two factors: (1) the existence of natural trade regions within the United States, which disregard state boundaries; and (2) the growing trend for U.S. exporters to relocate from large cities, where federal export services have traditionally been located, to suburban locations or smaller cities. The significance of these two factors indicated that the USEAC program would need to adopt a new structure for its network of offices. First, it would need to shift from the old US&FCS structure of district offices defined by political boundaries to one determined by the natural flow of business, such as a city's traditional linkage with large metropolitan areas that have had an export infrastructure of bankers, freight forwarders, and shippers. Second, the program would also need to get closer to its export client by opening more offices with fewer employees to more broadly distribute its export marketing and trade finance information and counseling.

We are concerned, however, that the hub and spoke network supporting the USEAC initiative may not fully realize the TPCC's expectations for four reasons: (1) ITA's support is complicated by resource and organizational issues; (2) SBA has sharply reduced its support of the hub sites; (3) Ex-Im Bank support will not be extended beyond the existing structure of its field network; and (4) reductions in federal trade finance support in the USEACs place a greater burden on state and local resource partners.

A. ITA Staffing Constraints and Organizational Issues Complicate USEAC Efforts

ITA's attempt to support the USEAC program is hampered by resource, organizational, and logistical issues.

ITA Resource Priorities Are Mixed

We believe the rollout of the remaining Export Assistance Centers will be complicated by the apparent inconsistency between Commerce's announced support for trade promotion as a top Commerce and ITA priority, and the difficulty US&FCS officials face in securing additional resources for the completion of the USEAC network—a key element in US&FCS's trade promotion operations. In meetings with US&FCS officials and from other sources, we have been told that the USEAC initiative and the associated restructuring of US&FCS's domestic field network is a top priority of Commerce, if not ITA. Yet, ITA has many other policy initiatives (e.g., Big Emerging Markets, Key Industry Clusters, Showcase Europe, North American Free Trade Agreement Secretariat), which are also top priorities. The challenge then becomes for ITA officials to ensure that it allocates its limited resources to its top priority programs—a challenge that many

suggest ITA, thus far, has failed to meet.

According to US&FCS officials, the USEAC initiative alone needs up to 50 more personnel slots filled. However, US&FCS does not have the resources, and ITA, which has been under a hiring freeze due to a perennial misalignment of personnel in the wrong operating areas (such as Trade Development), chooses not to provide US&FCS with these resources. Unless ITA recognizes the need to allocate its resources to its top priorities, initiatives such as the USEAC program will have difficulty realizing their full potential.

In its response to our draft report, US&FCS reportedly has had success with reallocating some of its headquarters personnel to domestic field assignments and 11 persons from overseas offices have been given domestic assignments, either as USEAC site directors or as Trade Promotion Coordinators within the four US&FCS regions. Although ITA's Office of Administration has allowed US&FCS some exemptions to the hiring freeze to hire on a case-by-case basis, US&FCS officials claim the Office of Domestic Operations still needs 30-to-40 more people to be fully staffed.

ITA Awareness of USEACs as a Policy Priority

Another problem affecting the success of the USEAC program is that few ITA staff—with the exception of most US&FCS domestic personnel—understand what the USEACs do and how their creation affects ITA's overall efforts. At a minimum, ITA must find a way to improve its internal cooperation and coordination to ensure that the staff of all operating units have a *working* knowledge of the USEACs. Additionally, ITA's other policy initiatives, such as Big Emerging Markets or Showcase Europe, must be managed to better complement each other.

In response to our draft report, US&FCS/Office of Domestic Operations will arrange a briefing for the incoming ITA Under Secretary to discuss the USEAC initiative and plans for communicating the goals of the initiative to all ITA staff. US&FCS will also distribute USEAC brochures to all ITA headquarters staff.

Congressional Budget Action May Curtail Final Rollout of USEAC Sites

As the Congress deliberates final action on fiscal year 1996 appropriations requests, the fiscal outlook for ITA and the US&FCS is uncertain. A severe reduction in resources could have a drastic and adverse effect on the completion of the USEAC network of offices, effectively limiting the rollout of remaining USEAC sites.

US&FCS Resource Allocation to USEACs Has Been Uneven

At the time of our field visits, resource levels for most of the USEAC sites, including Chicago, Long Beach, and Miami, did not conform with US&FCS's own allocation matrix. We believe that US&FCS should directly apply its allocation matrix to field staffing and make the necessary adjustments as soon as possible.

Table 1: Allocation of Full-Time Equivalent Positions at First Four USEACs					
	US&FCS Resource Allocation	US&FCS On Board	SBA	Ex-Im Bank	Total
Baltimore	5	5	2	0	7
Chicago	6	10	2	4	16
Long Beach	5	3	5	4	12
Miami	5	7	2	4	13

Source: US&FCS, September 6, 1994.

As can be seen in Table 1 above, there is a disparity in the allocation of US&FCS personnel to three of the first four USEACs. US&FCS constructed an allocation matrix that is based on such criteria as the size of the local export community and the availability of other export resources, and that calculates the amount of US&FCS staff resources necessary to carry out the export marketing activities for that geographic area. At the time of our visit, only Baltimore's total number of employees (FTEs on board) appeared to be in line with the amount the allocation matrix called for. During meetings with US&FCS officials at these USEAC sites, we were told of plans to reassign some US&FCS staff to the new district EACs when they are rolled out. Discussions with a senior official assigned to US&FCS headquarters suggest that, using the reallocation matrix to reassign personnel, US&FCS may need to make 22 permanent changes of station (8 to USEACs; 14 to district EACs) for its field personnel to properly complete the network of hub and spoke offices. He indicated that US&FCS was prepared to make these changes.

Location of USEAC Spokes Must Remain Flexible

As we mentioned earlier, the Ontario spoke office could probably use one more trade specialist, as a priority to assigning that person to open the spoke office in Oxnard. In

addition, we understand that one of the spokes (in Kennewick, Washington) scheduled to be linked with the Seattle hub, could probably better serve the export community if it was moved to Spokane. This location would enable the spoke to more easily service the northern Idaho region, which has been cited as a rapidly growing export community. Unfortunately, this region of Idaho is viewed by staff of the US&FCS branch office in Boise as their territory. We also believe that the US&FCS should update its USEAC site selection process to incorporate economic data from the 1992 Economic Census to reflect the latest shifts in business patterns. Although we doubt that the choice of hub locations would change much over time, we believe that US&FCS should be flexible in determining the location of spokes as well as the overall allocation of US&FCS personnel to the various offices to ensure that the U.S. export community's needs are met in the most efficient and effective means possible.

In response to our draft report, US&FCS believes that simply relying on current census data for updating its USEAC site selections would be a counter-productive and time-consuming exercise. They suggest the better approach is to use local outreach meetings and local office client concentration data to determine office locations. We are not suggesting that US&FCS continually evaluate census data and make corresponding changes to their office locations. Most likely, USEAC hub sites are probably where they should be. The concern we have is at the margins—those areas where the underlying demographics and business patterns are emerging (as revealed in census data). We believe those areas should be better understood so that US&FCS can make the changes when “critical mass occurs” and not just overreact to the most vocal or outspoken clients.

B. SBA's Resource Support of USEACs Is Pared Back

With the proposed rollout of the next 11 USEACs, we learned that SBA can commit only one loan officer to each of those sites. As a result, we questioned SBA's commitment to the program. However, after meeting with the senior SBA official for the USEAC program, we are convinced that SBA program officials and the SBA Administrator have placed a high priority on the success of the USEACs. It must be noted, however, that SBA officials emphasized to us that their agency faces numerous challenges as its resources are under scrutiny by the Congress. Given the scarcity of resources, an SBA official stated that the agency was doing as much as it could, under the circumstances, and it intended to very closely monitor the performance of its personnel at the USEACs.

One of the limitations faced by SBA in the USEAC sites is that the SBA team members may only recommend a loan for approval and must rely on the local SBA District Office for final approval. As a result, export clients frequent complain about the time required for SBA to process its trade finance applications. International trade finance transactions are a minor concern for SBA District Offices, because domestic-oriented programs

represent a larger portion of their total loan portfolio and, in turn, have a greater impact on the performance appraisals of SBA district staff. Many export deals, however, are very time-sensitive, and such delays may jeopardize them. We suggested that SBA grant loan approval authority to the USEAC hubs, which would shorten the time needed for loan approval from four to six weeks to approximately five days. We are pleased to report that SBA has granted loan approval authority to the Long Beach site. According to the Long Beach site director and SBA headquarters, SBA has no plans to extend its loan approval authority to other USEAC sites for they have not experienced loan processing backlogs, as was the case in Long Beach. An SBA headquarters official said that the agency has given thought to potential loan turnaround problems and would consider granting loan approval authority to other USEAC sites if backlogs begin to occur.

Regarding the remaining 11 USEAC sites, we still believe the SBA should assign two loan specialists, both to handle the potential volume of loan transactions, including loan approvals, and to participate fully in the joint counseling opportunities and outreach responsibilities shared by all the USEAC staff. Without the second loan specialist, the USEACs may not be able to handle the expected volume of trade finance business. Although SBA has stated that it does not have the resources to add a second loan officer to the remaining USEACs, we propose that the US&FCS, through whatever means necessary, commit the resources to get the extra trade finance help needed. US&FCS has a number of sources it can look to, *e.g.*, seeking foreign service officers with commercial finance experience, entering into personal service contracts with former commercial bankers, or hiring employees with commercial banking experience on a part-time basis. If the only option available to the US&FCS is to augment the resources of SBA with a trade finance person of its own, the US&FCS may need to seek delegated authority from the SBA to render credit analyses and loan recommendations affecting SBA loan programs.

In its response to our draft report, both US&FCS and SBA maintain that thus far they have no indication of problems occurring with only one SBA trade finance specialist at most USEAC sites. Although we do recognize that immediate demands for loan processing may be now met by one SBA loan specialist, we do reiterate the need for the USEACs to find the resources to add an extra person at some point in the future, if only to provide additional marketing and outreach until the volume of loan applications increases.

C. Ex-Im Bank Support Falls Short of Expectations

Ex-Im Bank, on the other hand, has not demonstrated a similar level of commitment to the USEACs. Although Ex-Im Bank has been an active participant in the design and rollout of the program, it declines to deploy its resources further to accommodate the complete network of 15 USEACs. Ex-Im Bank currently has 21 employees in five regional offices

(New York, Miami, Chicago, Houston, and Long Beach). Of the USEAC sites open, only four (Long Beach, Miami, New York, and Chicago) have Ex-Im Bank staff members collocated within the USEAC. Ex-Im Bank senior management is confident that, with its combination of regional offices and its city/state partners, it will be able to respond to all USEAC requests for its services. We continue to believe that the USEAC program would be better served by having representatives of all three agencies in each of the planned 15 USEAC (hub) sites.

One of the resource partners in the design of the USEAC program is Ex-Im Bank's city/state program, conducted through local governments that serve as authorized agents for Ex-Im Bank trade finance and credit insurance products and services. There are presently 30 city/state partners (including the District of Columbia and Puerto Rico), though only eight of them are active, and just six of those active partners are in cities with a USEAC hub or spoke. Of the 22 inactive city/state partners, 15 are located in USEAC hubs or spokes. The only city/state partner we have first-hand experience with is the one associated with the Baltimore USEAC, and it is considered to be one of the best in the country. Unfortunately, we have been told by some of the city/state partners themselves that only "five or so" city/state partners are considered competent. We understand that the Ex-Im Bank is embarking on a trade finance training program to strengthen the capabilities of those partners whose expertise is considered below par. Thus, it appears that the success of the USEACs to offer trade finance assistance to the exporter will, for now, hinge on the availability of other program participants, namely SBA and those US&FCS personnel with the necessary cross-training in trade finance.

The Baltimore USEAC has no Ex-Im Bank staff assigned permanently to the office, although it is visited periodically by two Ex-Im Bank staff members from the New York regional office. Baltimore is fortunate to have a city/state partner, the Maryland Industrial Development Financing Authority (MIDFA). The state government has cut back the budget for MIDFA and, although the trade finance group that supports the USEAC remains intact, the unit has been forced to move out of the World Trade Center (where the USEAC is located) to a building four blocks away. MIDFA has been cited frequently as a good example of how a strong and competent city/state partner can effectively leverage the resources of the Ex-Im Bank to accomplish its trade finance mission.

The other three pilot USEACs all have Ex-Im Bank staff collocated at the site. The closest city/state partner for the Miami USEAC is in Tallahassee. The Chicago USEAC has a city/state partner located nearby, but it is presently inactive. The Long Beach USEAC rivals Baltimore for its city/state partner, the California Export Finance Office, located in nearby La Palma, is also considered excellent.

Unfortunately, based on our interviews with state and local officials and a number of USEAC personnel, we do not have the same confidence in most of the remaining 28 city/state partners to help carry out Ex-Im Bank's trade finance program. These

observations, if true, could undermine the effectiveness of the USEAC program as it rolls out the next 11 sites. If Ex-Im Bank staff are hoping to cover their territory through periodic visits, the lack of an effective city/state partner (or any partner, for that matter) will not only erode the confidence of exporters in a federal delivery system that can help them, but will also limit their exporting success.

Ex-Im Bank officials have told us that they can neither augment their regional office resources, nor do they wish to reallocate them to several more offices, as US&FCS and SBA are doing. Instead, Ex-Im Bank officials state that their regional offices will visit those future USEAC sites during their customary circuit of the major cities in their region. An Ex-Im Bank official stated that they will be able to handle the volume of business generated by the USEACs by "parachuting in" field personnel to the location in need of help, adding that they will respond within a week. The Ex-Im Bank official did not think this would be a problem because he thought such a situation would arise only infrequently.

What an Ex-Im Bank official has suggested, however, is that the only possibility for moving their offices would be to relocate their Houston regional office to Dallas after the USEAC opens there. The fact of limited Ex-Im Bank resources in the field may cause gaps in the delivery of trade finance services in the USEAC network. If a client is in an area not served by a city/state partner, or one that lacks the resources or expertise to be helpful, then the client must rely on the yet-to-be-tested periodic visit of an Ex-Im Bank representative who covers that region.

Exporters with experience in the first four USEACs remarked that US&FCS trade specialists have helped them in new ways with the added knowledge of, and greater access to, trade finance resources. The emphasis placed by the USEACs on its US&FCS, SBA, and Ex-Im Bank employees to conduct joint counseling of clients, to identify joint opportunities for outreach to the business community, and to enhance cross-training, has yielded improved service delivery to the export community. And US&FCS trade specialists and SBA/Ex-Im Bank loan officers assigned to the USEACs have benefitted from the increased opportunity for cross-marketing of their products and services to their counterpart's clients and the opportunity for client referrals from their counterparts. Our concern is that the future USEAC sites may not benefit from the significant participation that US&FCS, SBA, and Ex-Im Bank devoted to the first four, thus limiting their effectiveness with exporters.

In its response to our draft report, US&FCS has agreed to our recommendation to pursue other options to augment the trade finance resources at those USEACs where such expertise is not available through the presence of either an on-site Ex-Im Bank representative or one of its city/state partners.

On the other hand, in its response to our draft report, Ex-Im Bank states that the presence of its Ex-Im Bank regional staff or one of the city/state partners should be sufficient to respond to all USEAC needs for Ex-Im Bank services. Through information provided by the Senior Policy Working Group, we calculated that gaps would likely occur in the delivery of Ex-Im Bank services to the several USEACs in which Ex-Im Bank has no representative and which also has no active city/state partner. Although Ex-Im Bank has conducted a training program for city/state partners to improve their performance, at the time of our review it was not apparent what practical effect this action may have. We therefore urge US&FCS, through the Senior Policy Working Group, to work closely with Ex-Im Bank and SBA to ensure that trade finance support is rendered quickly, efficiently, and effectively to USEAC clients.

D. Limited Federal Trade Finance Support in USEACs Shifts Burden to State and Local Resource Partners

One of the elements in the design of the USEAC program has been to take advantage of the existence of various other public sector groups—especially state and local governments—that can offer their resources and expertise to help U.S. exporters.⁷ We found during our field visits that many local groups, both government and non-government, do offer specialized counseling, trade financing services, and access to foreign market opportunities (both market information and overseas trade missions) for U.S. exporters.

During the rollout phase of the USEAC program, the Senior Policy Working Group organized outreach meetings for the local export community in each of the 15 cities slated for a USEAC. These meetings were hosted by the local District Export Council. At each meeting, there was much discussion about the specific and often unique levels of support for exporters that would be needed from the USEAC. It is the consensus that as the rest of the USEACs are rolled out, they should be tailored to address the needs of the business community in each area (*e.g.*, in some cities, the USEAC would be more of a wholesaler of information and, in others, it may provide more direct assistance).

Two of the better examples we found involved the Baltimore and Long Beach USEACs. Located in the same building as the Baltimore USEAC is the Maryland Department of Economic and Employment Development and the World Trade Center Institute, with the Maryland Industrial Development Finance Authority located only a few blocks away. As we mentioned above, MIDFA has shown itself to be a strong partner to the USEAC in assisting exporters with their trade finance needs.

In Long Beach, the USEAC is located in the same building as the California Department

⁷ Trade Promotion Coordinating Committee, October 1994, p. 43.

of Export Development. This group has several overseas offices that not only provide market intelligence for trade opportunities but also host trade missions sponsored by the state. Other collocated groups include the Greater Los Angeles Trade Center Association and the Long Beach Export Development Office. An additional asset, although not located in Long Beach, is the California Export Finance Office, which offers trade financing for California exporters.

An example of the problems that can occur with resource partners is the situation in Chicago with the Illinois Department of Commerce and Community Affairs, International Business Division. Because of sharp cutbacks in the state budget, this entity had suffered a 50 percent cutback in resources. This cutback resulted in the closing of half of its overseas offices and the layoff of a substantial number of staff. The impact to the Chicago USEAC is that this State of Illinois resource partner is substantially less able than before to help the local export business community in the near term and the USEAC may need to modify its program to ensure trade finance coverage for the region.

In the remaining 11 USEACs, US&FCS and the Senior Policy Working Group must closely examine each site to assess how much support they can realistically expect from the local resource partners. This is particularly important because the USEACs themselves will have fewer staff (*i.e.*, no Ex-Im Bank staff and only one SBA staff member). It is necessary, therefore, to look hard at the resource partners to determine who has the financial stability and expertise on which the USEAC can rely.

As more USEAC sites are opened, we believe more attention should be paid to enhancing the cooperation of state and local government and private sector resource partners with the USEACs. These entities can be a valuable resource in working with the USEAC to increase the export activity in their communities. They disseminate trade information, sponsor seminars, and assist exporters with financing and counseling. The resources and expertise of these groups have a direct effect on the role that the USEAC may need to assume if the local export community is to grow. In some locations, the role of the USEAC can be more of a wholesaler of information to these resource partners, whereas in others they may need to provide their services and information more on a one-on-one basis.

IV. US&FCS MANAGEMENT MUST ADDRESS OTHER MATTERS AFFECTING USEAC'S FUTURE

Our concerns with US&FCS's management of the USEAC program are many: (1) the lack of a USEAC reporting system; (2) the integration of the US&FCS foreign and domestic components into a Commercial Service of the United States may be more form than substance; (3) US&FCS's domestic regional management structure should be re-evaluated in light of the USEAC network; (4) US&FCS should allow USEACs greater flexibility in their operations; and (5) the information technology needs of the USEACs

should be addressed further.

A. USEAC Program Lacks Reliable System for Identifying, Measuring, and Reporting Accomplishments

The Senior Policy Working Group conducted the planning of policy and operational guidelines for the USEACs, although they have not resolved the criteria for measuring success. At the time of our site visits, the three agencies were still measuring success as they always had--US&FCS's goals were measured by the number of export actions and SBA's were measured by the number of loan guarantees. Ex-Im Bank measured its performance qualitatively--its outreach to the business community. All agencies continued to report their individual accomplishments to their parent agencies. There are other activities of the USEAC that seem to have no criteria for measurement, such as joint counseling, outreach, and client referrals.

It is critical for the Senior Policy Working Group to take action to collectively determine how USEACs will identify, measure, and report their accomplishments. The working group should keep the exporter in mind when identifying these measures for success to ensure that they are valid and meaningful. The exporter may be able to offer suggestions to improve the operations of the USEAC and identify those performance elements that are critical to their exporting success. USEAC managers have suggested several components that will make up the criteria for measurement of success in the USEACs, such as the dollar volume of loans processed, and the number of new-to-market and new-to-export companies that have successfully exported.

In its response to our draft report, US&FCS states that their Performance Measurement Review Team has developed and implemented a system of USEAC performance measures to address our concerns. We have requested documentation from US&FCS and they have promised to provide this to us.

B. Integration of US&FCS Domestic and Overseas Staff Warrants Special Attention

The establishment of Regional and District EACS will affect virtually every domestic US&FCS office and, indirectly, every overseas post. The US&FCS is basically creating more domestic field offices with fewer people in each office. This change requires the reassignment of numerous staff as well as offering the opportunity to tap the pool of Foreign Service Officers (FSOs) returning from their tour with a US&FCS overseas post. This phenomenon of returning FSOs is of particular concern to us as the US&FCS strives

to integrate its domestic and foreign personnel through assignments to duty stations on a global basis rather than only overseas or only domestic U.S. duty stations. The purpose behind the integration of the two services is to broaden the experience of each. To quote the National Export Strategy:

"The US&FCS network is composed of two distinct work forces: domestically, civil service trade specialists who counsel U.S. businesses in their local communities; and overseas, foreign service officers who assist visiting firms. This division has two major shortcomings. First, domestic staff often lack opportunities to gain "hands-on" work experience in foreign markets—essential to counsel clients authoritatively. Second, foreign service officers typically spend most of their careers abroad, and have fewer opportunities to work in the United States, where most business is generated."⁸

Beyond the basic objective of exchanging both domestic and overseas roles, the integration of the US&FCS domestic and foreign personnel faces practical hurdles of rotation schedules and finding meaningful assignments for persons with a wide range of professional backgrounds.

The Foreign Service Personnel regulations under which the US&FCS must operate allows an FSO to be assigned consecutive tours extending no more than 15 years outside the United States. Since the US&FCS was separated from the State Department in 1980 and a number of new FSOs were then hired, we expect that US&FCS may soon be faced with a rise in the number of FSOs who will be approaching the 15-year limit. This increase of FSOs may create a surplus of senior-level personnel for which the US&FCS must find a suitable domestic office assignment, not unlike the problem the State Department faces with its returning FSOs. These individuals would then need to find an assignment with US&FCS either in its Washington headquarters or somewhere within its domestic field office structure.

US&FCS has been attempting to integrate the work experience of the domestic and foreign staff through other measures, such as: (1) requiring new commercial officers to serve their first assignment with a US&FCS domestic office; and (2) encouraging trade specialists and others serving in domestic offices to seek temporary duty assignments overseas to enable them to gain foreign post experience. US&FCS officials have said that one of the incentives by which they hope to integrate the domestic and overseas personnel is by offering the opportunity for faster career growth if the personnel choose to accept overseas assignments and are willing to be more flexible in their choice of duty stations. One of the USEAC site directors suggested that "FSOs would be good at domestic assignments requiring representational work." Although FSOs generally would be slightly senior in grade level to other domestic staff, US&FCS should determine how to assign

⁸ Trade Promotion Coordinating Committee, October 1994, p. 51.

these officers to suitably challenging stateside assignments where they can serve productively. As recently as July 1995, US&FCS launched a new program to recruit domestic service personnel into the foreign commercial service through a series of interviews, sidestepping the rigorous recruitment process of the foreign service officer exam. Although the number of candidates eligible for this program is small, it is recognized as an important first step to increasing the integration of the two services.

US&FCS officials have said that they expect the integration of the domestic and foreign services to take time, probably five to seven years. The change involves the integration of two different "corporate cultures," involving individuals who have had different expectations as to the type of work they expect to do and where they expect to do it.

In response to our draft report, US&FCS states that it has (1) assigned overseas personnel to domestic locations, (2) offered limited overseas assignments to domestic personnel, and (3) assessed several domestic personnel into the foreign side of the US&FCS for eventual overseas assignments. These actions are consistent with our recommendation and we urge US&FCS to continue this pace of integrating its domestic and overseas personnel.

C. Current US&FCS Regional Management Structure Should Be Re-Examined

We believe the allocation of resources by US&FCS to support the USEAC program could be improved. What were five, and now four, regional offices and their staff supporting the domestic network represent an unnecessary drain of US&FCS resources from direct services to export clients. We believe much of those resources could be put into the USEACs. In the spring of 1995, US&FCS decided, but then postponed its decision, to reduce the number of regional directors from five to three, although we believe it should follow through with its decision now. We have since learned that the US&FCS regional office in Atlanta was closed, reducing the number of regional offices to four: Baltimore (replacing Philadelphia), Cincinnati, St. Louis, and San Francisco. Beyond the question of resources, however, we believe that the regional management structure may *not* be the most appropriate means for US&FCS to maintain management oversight of a new USEAC network.

We believe that the number and location of US&FCS regional offices are based on an outmoded operations environment and should be re-examined to fit the new US&FCS domestic field structure and operating environment as it will be realized through the USEAC network of hub and spoke offices. The driving forces behind this re-examination, of course, are the changes represented by the creation of USEACs and the integration of the US&FCS domestic and foreign personnel. As US&FCS attempts to "get closer to its customer" by establishing more field offices staffed by fewer employees, it must also critically examine the role of regional directors (RDs). Given that the RDs serve more an

administrative and management role, rather than being directly involved in export promotion, it would appear that they need not necessarily be located in the field. Further, we question whether the present number of RDs (four) makes sense in the face of ITA's continuing environment of scarce fiscal resources and hiring constraints. For example, the commitment of 16 positions to maintain four regional office directors and their associated support staff appears difficult to justify in light of the current and likely future scarcity of resources. Furthermore, we believe the role of RDs, coupled with the benefit of telecommunications and computer technologies, may be conducted just as easily and more efficiently in another city (even US&FCS headquarters) versus at the four regional locations as is presently done. Finally, the creation of the USEAC network, suggests that the hub sites may have a role in the oversight and management of the field network. We recommend, therefore, that US&FCS re-examine what form of management structure it needs to best oversee domestic field operations.

In response to our draft report, US&FCS has cited a number of steps it has taken to re-examine its regional system: (1) reducing the number of regional directors; (2) vesting each regional director with greater management and administrative responsibilities; and (3) creating eight new positions of Trade Promotion Coordinator, to be staffed by Foreign Commercial Service Officers and located in each of the four US&FCS regions.

We agree that US&FCS should reduce the number of regional directors and give them greater responsibility. However, we are aware, and concerned by, the concurrent reduction in the number of staff members supporting the Deputy Assistant Secretary for Domestic Operations. Reportedly, the DAS for ODO presently has only one staff person to principally support him for questions concerning the USEACs—and that individual is slated for a domestic field assignment. Clearly, US&FCS headquarters officials should be prepared to address how they propose to best manage a more far-flung domestic structured with such scant resources.

D. Greater Creativity and Flexibility Should Be Encouraged at Individual USEACs

We have heard complaints from US&FCS field personnel regarding the sometimes "over-involvement" of US&FCS headquarters in the establishment and operation of the USEACs. The comments made were that headquarters was becoming too involved in seemingly trivial decisions that unnecessarily burdened the field staff with having to respond to the inquiry before gaining Washington's approval. The comment was that US&FCS headquarters should allow the field staff some level of discretion over decisions affecting the new USEAC offices. This perception of Washington's excessive oversight of the USEACs was also reinforced in a meeting with a team of General Accounting Office officials, presently conducting a review of the USEAC program, who have also visited the sites.

We find these comments and observations to be troubling in light of the opportunity the USEAC effort presents to US&FCS to take some risks and test new methods for delivering export assistance services to the business community. We encourage US&FCS to allow the USEACs a greater level of discretion and judgment over the details of their sites while striving to achieve the fundamental goals of the program.

In response to our draft report, US&FCS cited the development and implementation of the new performance measure system as a means to foster greater creativity. This new system is expected to measure actual accomplishments rather than activity.

E. Telecommunications and Computer Technology Shortcomings Noted

Increasingly, the success of the US&FCS trade specialists within the USEAC network will depend on maximizing their contact time with their export clients and the amount of useful information they can retrieve before, during, and after these counseling sessions. Information technology and telecommunications are the tools to achieve these ends. Without these resources, the trade specialists will be less productive and will be unable to help as many potential exporters.

Mobile Office Technology to Meet Needs of USEAC Staff and Clients

Prior to our site visits, the US&FCS Deputy Assistant Secretary for Domestic Operations had shown us a "mobile office," a suitcase-sized case consisting of a laptop computer, cellular phone, CD-ROM reader, facsimile machine, and printer. This device was reportedly the prototype of things to come and was intended to be used by US&FCS staff members when they visit client offices to conduct joint counseling sessions. These devices are to be used by the US&FCS staff to access databases of international trade data and export marketing information while counseling the client.

Although this device appears to have significant attributes, it has not been universally adopted by the field. According to US&FCS trade specialists we interviewed, it is considered to be a cumbersome device to transport, and few of them saw the need for it. During the period of our visits, only two of the four USEACs had received and used the mobile office cases. The third unit had been returned to Washington, and the fourth had just arrived but had not yet been used. What the trade specialists expressed a desire for was the flexibility to choose from the mix of electronic devices they believe would be the best tools to help them be more effective in their work. What some of the trade specialists said they found most useful, however, was perhaps a laptop computer and a cellular phone with which to conduct their field work.

Some US&FCS trade specialists have already begun the process of operating from mobile

offices through the use of technology. The work of a trade specialist resembles that of a consultant and, just as time constraints on American business people increase, so, too, must US&FCS deliver its products and services to its business clients quickly. As technology improves, the exporters will expect the trade specialist to come to their office. The USEACs are one of several initiatives US&FCS has implemented in the last year that will affect the direction that technology should be moving. One of the important fundamentals of this concept is the move to collocate US&FCS counseling centers with other agencies, such as state and local export offices, and share data with these organizations and other not-for-profit export groups, such as World Trade Centers. US&FCS should consider the need for trade specialists to be sharply attuned to the availability and capability of trade partners and other government agencies in their locale that are offering similar services. It is important that these various organizations communicate with one another both personally and electronically.

2. National Trade Data Bank Needs to Be More User-Friendly

During our field visits, we heard numerous complaints about the National Trade Data Bank (NTDB). Access to the data is slow; placing the NTDB in public libraries has resulted in long lines of potential users. These delays are due to the libraries limiting the users' access to 30 minutes each and the fact that some library staff assigned to help users with the NTDB were not familiar with the most effective ways to access the information, thereby reducing productive use of the terminals. We found that local resource partners, such as the Export Small Business Development Center in Los Angeles and the Florida Trade Data Center in Miami, took the basic information on the NTDB and created more user-friendly methods to access the information, such as reconfiguring the information in a personal computer file menu, plus these partners augmented the basic NTDB data with additional information valuable to their export communities. We recommend that US&FCS assess alternative means for disseminating NTDB information that would be more accessible to the end user.

3. Commercial Information Management System

The Commercial Information Management System (CIMS) is the client contact database that US&FCS developed several years ago for use by field personnel in counseling their clients. At the end of 1994, US&FCS commissioned a consulting firm to analyze its automation environment. Although US&FCS's Office of Information Systems found the consultant's report to be generally well-prepared and with correct findings, it also cited shortcomings from the report, such as weak cost data and a tendency to have a bias toward those items, such as end-user tools, having an immediate payback. Nonetheless, the report did cite, and the Office of Information Systems agreed, that CIMS could be simpler to use, and a CIMS redesign to include a graphical user interface would be helpful. US&FCS should assess the needed upgrades/modifications needed to make CIMS a more usable database for the US&FCS field offices.

In response to our draft report, US&FCS reaffirmed its commitment to use technology to improve the productivity of its trade specialists and their client contact. In recent meetings with senior US&FCS managers, they have told us that they have decided to scrap the proposal to equip all of the USEACs with the mobile offices. These systems were found to be too cumbersome and did not meet the needs of the trade specialists. What US&FCS now proposes is a goal of one laptop computer for each trade specialist. Additionally, US&FCS is evaluating wireless communications technology as a means to provide more cost-effective and reliable communications for the trade specialist in the field. According to US&FCS, the Economics and Statistical Administration is planning the release of a more user-friendly National Trade Data Bank on CD-ROM and is also making the NTDB available through the Internet. Finally, US&FCS officials state the Commercial Information Management System may be replaced with off-the-shelf data base management software.

V. Conclusions

Our initial observations of U.S. Export Assistance Centers have indicated that many dedicated US&FCS staff and others have worked hard in bringing together federal export assistance efforts in a more synergistic manner. While it is premature to see evidence of significant results, we have received reports of greater successes being achieved by the first four sites.

At this point, the "honeymoon" for the USEAC program is over and it is beginning to feel some stress from the fiscal realities affecting the commitment by SBA and Ex-Im Bank to the further rollout of sites. The Senior Policy Working Group also has several issues to address that have been raised by the site directors at the first four locations. US&FCS has many decisions to make concerning how it plans to oversee this network, and integrate it into the rest of US&FCS, and ITA, operations.

We are most concerned, however, with the priority ranking in which ITA views its many policy initiatives, and the decisions it makes to allocate resources to those priorities. This factor, we believe, poses the greatest single threat to the future of the Export Assistance Centers. Although ITA claims the USEAC initiative is a top priority, we fail to see that translated into meaningful support for its implementation. We believe this problem stems from ITA's persistent misalignment of resources among its operating units, and failure to accommodate its stated priorities in any order ranking. With the prospect of significant budget reductions in fiscal year 1996, we have little assurance that the National Export Strategy's concept of a nationwide network of "one-stop" shops for export assistance will become a reality, unless ITA senior management makes some very difficult, but necessary, decisions in the next few months.

VI. Recommendations

We recommend that the Assistant Secretary and Director General, US&FCS, in consultation with the appropriate officials, take the necessary actions to address the following recommendations:

1. Take immediate measures to ensure that, at a minimum, each hub location is assigned at least one full-time trade finance expert. More specifically, the following options should be pursued:
 - A. Request the Secretary of Commerce, as chair of the Trade Promotion Coordinating Committee, to strongly encourage the Export-Import Bank to redistribute or increase its regional staff resources to provide at least one full-time person to each Export Assistance Center hub location.
 - B. Have US&FCS and ITA officials give prompt and priority consideration to recruiting and hiring experienced trade finance specialists in its hub locations. This should be an absolute priority for any USEAC hub that does not have a full-time finance specialist from the Ex-Im Bank.
2. Request the Secretary of Commerce, as chair of the Trade Promotion Coordinating Committee, to strongly encourage SBA to honor its commitment to the planned level of field staff resources to the Export Assistance Centers. Concurrently, develop an alternative strategy that will effectively address any voids or problems created by SBA's inability to fully honor its earlier commitment.
3. Work with the Assistant Secretary for International Economic Policy, the Assistant Secretary for Trade Development, and the ITA Director of Administration, to ensure that the appropriate levels of internal cooperation and coordination are established and maintained that will, to the maximum extent possible, ensure that:
 - A. All ITA employees involved in export promotion activities with the public have a working knowledge of the hub and spoke network and that they clearly understand their respective roles and responsibilities.
 - B. ITA's many priorities and initiatives (e.g., Big Emerging Markets, Showcase Europe, etc.) are managed to effectively complement each other.
 - C. Priority consideration is given to filling the key jobs in the Export Assistance Center hubs and major spokes with experienced personnel with a variety of trade and commercial experience both in the United States and overseas. This should include reallocating ITA headquarters resources, as necessary, to ensure that these key positions are filled with qualified staff.

4. To widely test, demonstrate, and promote the *validity* and *potential* of the USEAC hub and spoke concept, give prompt and priority attention to rolling out a complete "showcase" hub and spoke network in one region. This model hub and spoke network should be one that (1) has great potential to succeed, (2) can be put in place quickly, and (3) can be operated with all of the desirable partners and components (*i.e.*, US&FCS, SBA, and Ex-Im Bank) and other important resources (*e.g.*, information technology, telecommunications, state and local partners, and Senior Commercial Officers).
5. Develop and implement a comprehensive overhaul of US&FCS's domestic and overseas resource allocation and field management structure to effectively address emerging USEAC resource needs world wide, linking the strategy, planning and execution of several initiatives to ensure that US&FCS:
 - A. Re-evaluates the need for, and reconfirms the choice of all 83 USEAC spoke locations, by: (1) justifying the need for the dozens of small offices it intends to establish, which appear to offer diminishing returns for the significant investment involved; (2) determining whether the choice of locations is still valid by using such tools as results from the more recent 1992 economic census data, and other information (such as target client data from local outreach meetings and local office client concentration data) for the allocation matrix and selection criteria; and (3) making the necessary adjustments to the total number and location of USEAC spokes.
 - B. Develops and implements a system for periodically evaluating and adjusting (1) US&FCS resources allocated to all of the USEAC sites, and (2) the location of the spoke offices, as necessary. In this regard, US&FCS should ensure that it incorporates a high degree of flexibility into the USEAC site rollout plans that will routinely respond to changing business patterns and avoid having its hub and spoke network become obsolete.
 - C. In conjunction with parts A and B above, re-distribute US&FCS human resources, through directed assignments if necessary, to domestic field locations as determined by the resource allocation matrix to maximize the agency's trade promotion goals and objectives.
 - D. Thoroughly re-examines the continued need for its regional manager structure and explores alternatives to providing improved management oversight of the hub and spoke network.
 - E. Develops a clear and concise strategy aimed at simultaneously (a) promoting US&FCS's foreign and domestic "integration" initiatives, and (b) developing a plan to staff the USEACs with personnel having significant overseas trade

experience, e.g., by providing incentives to encourage Foreign Service Officers to bid on domestic tours, making directed assignments of FSOs to domestic positions, and offering excursion tour opportunities to USEAC staff members.

6. Explore additional ways, beyond the integration initiative, to bring more immediate action to improve and further enhance US&FCS overseas personnel's knowledge and understanding of the actual workings of the USEAC hub and spoke network (e.g., arrange for Senior Commercial Officers, through temporary duty assignments, to spend time in the hub and spoke network, and arrange for key foreign service officers to attend US&FCS regional training sessions).
7. In consultation with the Senior Policy Working Group, develop and implement a system for identifying, measuring, and reporting programmatic accomplishments unique to a USEAC.
8. In consultation with the Senior Policy Working Group, develop a management structure for USEAC site directors to have primary authority and input over important USEAC budget matters, employee performance appraisals, local program strategy, and other actions that will enable the USEACs hubs to function as a unified entity instead of as separate government units that happen to be collocated.
9. Ensure, to the maximum extent possible, that USEAC sites have the full range of telecommunications and computer technology to put trade specialists in closer contact with their clients and improve their ability to provide out-of-office counseling.
10. Evaluate options for offering additional information products, such as the Internet and other business-related online services, to USEAC staff and their clients, and for delivering the National Trade Data Bank in a more user-friendly medium.
11. Develop a strategy aimed at resolving potential conflicts which may occur as a result of USEAC hub locations being determined by "natural trading regions." Each USEAC hub must serve a multi-state network of spokes, whereas the Ex-Im Bank city/state representative (as in the Baltimore USEAC) must first and foremost serve the local interests and priorities that govern the use of state and local government trade finance resources.
12. Ensure that training for all persons involved in the USEACs remains as a top budget and program priority to meet the evolving and changing needs of the hub and spoke program, information technology demands, and the dynamics of ITA's export promotion initiatives. In particular, work with other federal agency partners (such as SBA, Ex-Im Bank, and U.S. Agency for International Development) to ensure that they make resources available for training their staff assigned to the USEACs

and participate fully in joint training.

13. Encourage, through incentives and other means, greater innovation and creativity by USEAC site directors and their staffs in using their resources to develop new clients, offer expanded services old clients, and better integrate among their partner agencies.

APPENDIX A
List of U.S. Export Assistance Centers⁹

<u>State</u>	<u>Proposed Site</u>	<u>State</u>	<u>Proposed Site</u>
Alabama	Birmingham	Louisiana	Shreveport
	Mobile	Maine	Augusta
Alaska	Anchorage		Portland
Arizona	Phoenix	Maryland	Baltimore (REAC)
Arkansas	Little Rock	Massachusetts	Boston (REAC)
California	Los Angeles		Marlborough
	Ventura	Michigan	Detroit (REAC)
	Ontario		Grand Rapids
	Newport Beach		Lansing
	Long Beach (REAC)		Royal Oak
	San Diego	Minnesota	Minneapolis
	San Francisco	Mississippi	Jackson
	Santa Clara	Missouri	St. Louis (REAC)
Colorado	Denver (REAC)		Kansas City
Connecticut	Hartford/Middletown	Nebraska	Omaha
	Stamford	Nevada	Reno
Florida	Miami (REAC)	New Hampshire	Portsmouth
	Orlando	New Jersey	Trenton
	Tampa		Newark
	Jacksonville	New Mexico	Santa Fe
Georgia	Atlanta (REAC)		Albuquerque
	Savannah	New York	New York (REAC)
Hawaii	Honolulu		Albany
Idaho	Boise		Westchester County
Illinois	Chicago (REAC)		Long Island
	Wheaton		Harlem
	Rockford	North Carolina	Greensboro
	Palatine		Charlotte
Indiana	Indianapolis	Ohio	Cincinnati
	Gary/Hammond		Cleveland (REAC)
Iowa	Des Moines		Columbus
Kansas	Wichita		Toledo
Kentucky	Louisville	Oklahoma	Oklahoma City
	Somerset		Tulsa

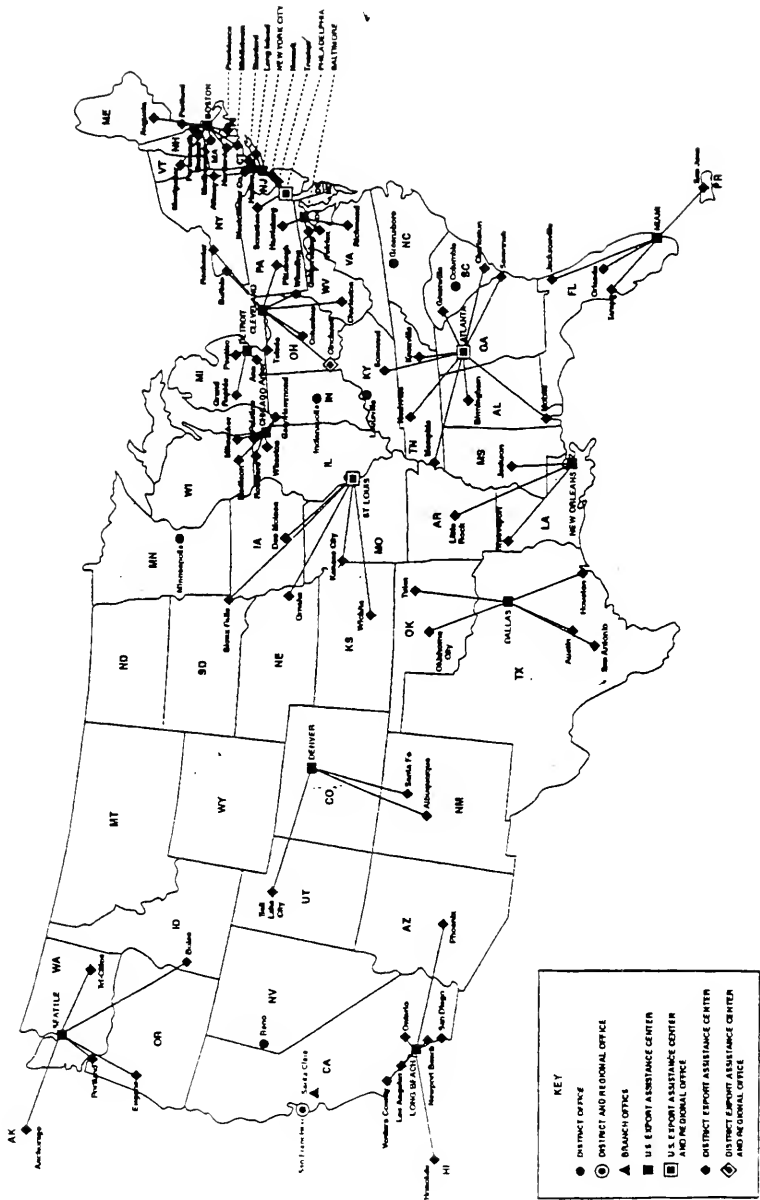
⁹ Source: US&FCS, September 6, 1994.

APPENDIX A (cont'd.)
List of U.S. Export Assistance Centers

<u>State</u>	<u>Proposed Site</u>	<u>State</u>	<u>Proposed Site</u>
Louisiana	New Orleans (REAC)	Oregon	Portland
Oregon	Eugene	Texas	Dallas (REAC)
Pennsylvania	Philadelphia (REAC)		Austin
	Pittsburgh		Houston
	Scranton		San Antonio
	Harrisburg	Utah	Salt Lake City
Puerto Rico	San Juan	Vermont	Montpelier
Rhode Island	Providence	Virginia	Richmond
South Carolina	Columbia		Fairfax
	Charleston	Washington	Seattle (REAC)
	Greenville		Tri-Cities
South Dakota	Sioux Falls	West Virginia	Charleston
Tennessee	Nashville		Wheeling
	Memphis	Wisconsin	Milwaukee
	Knoxville		Madison

APPENDIX B

Enhanced USEAC National Network: Phase I





UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
 Washington, D. C. 20230

February 12, 1996

MEMORANDUM FOR: Frank De George
 Inspector General

FROM: Lauri Fitz-Pegado
 Assistant Secretary and Director General
 The Commercial Service

SUBJECT: The Office of Domestic Operation's (ODO) Response to the Inspector General's (IG) **Draft Report on Inspection of U.S. Export Assistance Centers (IRM-7130)**

The following is a point-by-point response to the IG report on the U.S. Export Assistance Centers (USEACs). Please note that we have only briefly summarized each of the IG's recommendations. The actual recommendations are attached at the back of this document.

1. Take measures to ensure that a minimum of one trade finance expert is at each hub location by pursuing the following options: (A) request that the Secretary encourage the Export Import Bank of the U.S. (ExIm) to provide at least one full time person at each USEAC and (B) hire outside trade finance specialists in situations where there is no ExIm person at a particular USEAC.

Response: It is important to note that each and every USEAC does have at least one trade finance expert. The Small Business Administration (SBA) has at least one person at each USEAC. In Addition, the ExIm Bank either has people at the USEACs (New York, Chicago, Long Beach, Miami) or has a presence through their city/state program.

A) ODO will produce a decision memo for the Secretary recommending that he to meet with Acting Chair Kamark to discuss increasing ExIm Bank resources to USEACs.

B) ODO will also explore using this recommendation to persuade ITA Administration to make exemptions to the hiring freeze for trade finance specialists.

In addition, ExIm has agreed to allowing our trade specialists from the New York and Long Beach USEACs to attend their training free of charge. We anticipate that more training in this area will follow.

Finally, ODO, drawing on its own experience, will urge both SBA



and ExIm to utilize Personal Service Contracts (PSCs) as a means of getting trade finance specialists in to the USEACs.

2. Request the Secretary to encourage SBA to honor staffing commitments at USEACs while concurrently developing an alternative strategy to address the voids or problems created by SBA's absence in certain areas.

Response: While most non-pilot USEACs have only one SBA representative, our Memorandum of Understanding (MOU) calls for at least 2 SBA staff at each Center. This discrepancy should be discussed at the next Senior Policy Working Group. One option would be to simply redraft the current MOU to reflect the reality of the new staffing patterns. In fact, we have received no indication from our field offices or clients that having only one SBA person in each USEAC has significantly impacted our ability to provide quality trade financing.

It is important to note that SBA is and has been essentially a field organization. During the site selection process for locating the USEACs, existing trade finance resources, including SBA offices, were explicitly considered. SBA's people in the USEACs have local SBA district offices and SBA regional offices providing support.

3. Work with other ITA Assistant Secretaries and the Director of Administration to ensure that A) all ITA employees involved in export promotion know about USEACs; B) ITA's priorities complement each other; and C) Key jobs at EACs are filled with experienced personnel.

Response: A) ODO will arrange briefing for incoming Under Secretary to discuss EAC initiative and plans for communicating initiative goals to ITA staff. ODO will also distribute EAC brochure to all ITA Hq staff.

B) Use "ITA Working Together" time slot at Commercial Service (CS) Worldwide Conference to develop and action plan for making EACs integral to other ITA initiatives. All Assistant Secretaries are invited to the Conference.

C) ODO has already made great strides in reallocating headquarter resources to both the domestic field and overseas. On the domestic side, ODO has conducted a job fair for HQ personnel on domestic field opportunities. As a result of ODO's efforts, 10 people from HQ (CS-wide) have relocated to the domestic field

EACs. In addition, 11 persons from the CS's overseas offices have been given domestic assignments in the EAC network

4. Create a showcase hub and spoke network in one region to promote the validity and potential of the concept.

Response: As stated in the IG report itself¹, what works for one USEAC may not necessarily work for a USEAC in a different region. The hub and spoke concept was discussed at length at the most recent USEAC site director's meeting. ODO intends to give the USEACs authority to decide on what type of hub and spoke system they want provided each USEAC: (1) develop a regional strategic plan, (2) demonstrate the benefits of each particular hub and spoke link, (3) link each hub and spoke informationally through technology, and (4) demonstrate what they have contributed to the region in terms of concrete results. ODO does not believe that one particular established hub and spoke system can be adopted throughout the country in a "cookie cutter" approach. Therefore, we should continue with current EAC rollout schedule to complete the national EAC network and use regularly scheduled USEAC site directors meetings to make the hub and spoke network produce anticipated synergy.

5. Overhaul the resource allocation and field management structure to ensure that US&FCS

5. A. Re-evaluate the need for, and location of, new offices.

Response: At this stage it would be inaccurate to characterize the EAC rollout as opening "dozens of small offices." In fact ODO has opened or will open very few brand new offices. Most of the "new" EACs are simply old district offices which have been converted. In either case the small offices have proved effective in keeping overhead costs down while at the same time leveraging many other non-federal resources. It is important to note that we are attempting to create a much larger network that goes beyond the hubs and spokes. We are in a sense "laying train tracks" to connect the export promotion and finance services of all federal, state local and private entities. In this scheme of things we feel it is more

¹ Page 5 of the report states: "In designing the pilot USEAC sites, the working group *correctly* recognized that no single design for one-stop shops would work nationally...."

important to have a presence in many locations throughout the country rather than concentrating in just a few locations. The breadth of our offices also allows the Commercial Service to remain in close contact with its clients. In fact, the IG report at page 20 states: "...the [EAC] program would also need to get closer to its export client by opening more offices with fewer employees to more broadly distribute its export marketing and trade finance information and counseling."

With respect to using 1992 census data to determine alternative office locations, it would be a counter-productive and time consuming exercise. The current office locations and proposed locations were determined by local outreach meetings and local office client concentration data. This approach to office locations are best determined by the needs of our target clients, not from aggregate export data.

5. B. Implement a system for adjusting resource allocation.

Response: The Commercial Service is not locked into a rigid plan for EAC openings. The CS management periodically adjusts plans for office openings, staffing patterns, and budget allocations based on local and organizational needs. Any resource allocation matrix (or any other resource allocation tool for that matter) must have enough flexibility to account for the changing needs of our target clients, small to medium sized export ready firms.

We have agreed to adopt a simplified cost and resource sharing plan which provides for fixed monthly contributions by the participants (i.e., ExIm and SBA) and a bi-annual adjustment review. We have also developed Lotus 123 templates to automate the recording of expenditures and lessen administrative burden.

5. C. Re-distribute human resources to domestic field locations to maximize US&FCS (i.e., the Commercial Service) goals and objectives.

Response: The CS has gone to great lengths to creatively utilize its dwindling work force to the fullest extent. As mentioned in the response to question 3, 10 people from Hq (CS-wide) have relocated to the domestic field and 11 persons from the CS's overseas offices have been given domestic assignments. In addition, seven people from the domestic field have assessed to the FS-1/2 level and 20 have assessed to the FS-3 in the foreign side of the Commercial Service. Currently, there are also four trade specialists from the

domestic field serving in limited overseas appointments.

Unfortunately, an internal ITA hiring freeze has prevented staff from other units of ITA from having the opportunity to work in CS field offices. Personnel vacancies in the domestic field are dangerously high and threaten the EAC initiative and undermine the quality of client service. The IG should recommend that the ITA Director of Administration permit ODO to hire or reassign staff as necessary to restore satisfactory FTE levels.

ODO has been granted personal service contracting authority and since 1995 has enacted 19 PSCs, all of which are involved in the USEACs.

5. D. Re-examine the regional management structure and explore alternatives.

Response: ODO has been undergoing a re-examining of the regional system and as a result has reduced the number of regions from 5 to 4. Although the number of regional offices has been and may continue to be reduced in the future, their importance as organization managers has increased. Regional Directors with greater management responsibilities will provide more efficient management of our domestic offices. It should be kept in mind that USEACs exist to provide service to our clients. Their ability to do this can only be enhanced as more of the purely administrative functions are moved to the Regional offices.

ODO has also created a new position - Trade Promotion Coordinators. Trade Promotion Coordinators are International Operations Foreign Service Officers placed in the Domestic Field to work closely with the Regional Director as a senior management team. Their extensive overseas work and management experience adds an international dimension to the domestic field's export strategies, improving the seamless delivery of service to U.S. exporters.

As the Office of Domestic Operations integrates more formally with the Office of International Operations, ODO plans to host eight TPCs in FY 96, two in each of ODO's four regions. These TPCs will serve the larger, more diverse exporting communities created by the recent regional realignment.

5. E. Develop a clear and concise strategy aimed at 1) promoting integration

initiatives, and 2) staffing USEACs with personnel that have significant overseas experience.

Response: The CS is responding to this recommendation. A lateral entry for GS-14s and 15s and an assessment for GS-13s have been completed resulting in numerous domestic personnel being qualified for overseas assignments. (See the response to 5 C) As these people rotate through the system, Foreign Commercial Officers will rotate into the USEACs bringing their overseas experiences to office clients. Senior Commercial Officers are site directors in the USEACs in Miami, Philadelphia, and Atlanta. The Dallas Director is a former Foreign Service Officer.

6. Explore additional ways to improve CS overseas personnel's knowledge of the USEACs.

Response: See response to 5.E. In addition, a November 1995 worldwide cable was sent to update overseas personnel with the latest milestones in the EAC initiative. The cable included Q&As to address common questions asked by overseas staff.

Over time, as more of the CS becomes a truly integrated work force, a thorough knowledge of the USEACs will be integral to each employee's professional background.

7. Develop a system for identifying, measuring, and reporting accomplishment unique to a USEAC.

Response: The 1996 ODO strategic planning guidance included a revised summary performance form which was designed to capture export actions and loans generated from the joint activity of USEAC staff. The ODO Performance Measurement Review Team has developed and implemented a system of USEAC performance measures that address IG and OMB concerns. Data related to these performance measures is already being collected for FY96.

8. Develop a management structure for the USEAC site directors to have authority over budget matters, appraisals, and program strategies.

Response: ODO management is investigating a "flat rate fee system" that by streamlining the interagency reimbursement system, would more easily provide site directors with authority over aggregate USEAC budgets. Other issues surrounding the idea of providing site directors with management control over all USEAC participants will

be addressed at the next site directors meeting

ODO is also seriously examining potential improved financial reporting software packages such as Lotus Notes and Gold Mine to help facilitate the budget allocation process. In addition, ODO is considering moving to a 360 degree performance appraisal system, such as has been used by ExIm. Under this system an person's performance is appraised by his or her supervisor, subordinates, and peers.

9. Use technology to put trade specialists closer to their clients.

Response: One of the cornerstones of the EAC concept is the use of mobile technology to facilitate closer contact between trade specialists and clients and the quick delivery of market information. ODO management is working toward the ultimate goal of one laptop computer per trade specialist. Cellular phones and pagers are also being used to increase trade specialist mobility and productivity. Training to maximize use of new technology is encouraged by ODO management. So far during FY96 ODO has spent \$75,000 on technology training.

ODO is reviewing its current operating policies with a view towards making technology play a larger role in the organization's drive to put the customer first. To this end, a Technology Policy Review Team has been created as a focus group to define ODO's needs, policies and standards for the domestic field with respect to technology. The Technology Policy Review Team is divided into three groups dealing with: (1) mobility and administrative responsibilities, (2) training & systems administration, and (3) standards and compatibility.

ODO has encountered difficulties in getting the Office of Information Systems (OIS) of the CS to supply technology and software in the field offices. OIS in some cases has been unable to provide the support needed for a timely, efficient, full scale technology implementation.

10. Evaluate making information products (such as the NTDB) more user-friendly.

Response: Stat-USA has plans to release a more user-friendly version of the NTDB on CD-ROM. Stat-USA has also made the NTDB available through the Internet. Bryant College and other private sector corporations repackaging and selling DOC products and

information to exporters.

11. Resolve territory conflicts that arise from natural trading regions not matching territories determined by political boundaries observed by USEAC partners.

Response: ODO management is giving this issue full attention by working with USEAC partners on a case-by-case basis. The CS recommends federal agencies such as ExIm that use partners (i.e., city-state program participants) to deliver its services be responsible for ensuring coordination among all state providers in a natural trading region covered by a USEAC.

12. Ensure training for USEAC personnel remains a top budget and program priority.

Response: Every USEAC employee (including all federal and non-federal partners) has received both trade finance and USEAC training. Training USEAC staff prior to opening USEACs was a ODO management policy. In 1995 there were four trade finance training sessions in various cities (Dallas, Toledo, Philadelphia, and St. Louis) and a total of 118 CS personnel were trained. There were five EAC training sessions (Dallas, Toledo, Philadelphia, St. Louis, and Atlanta) during which 273 total people were trained, which breaks down as follows: CS, 129; SBA, 69; ExIm, 25; Trade Partners, 47; Other, 3.

New Trade Specialist training took place in 1995 at the Xerox center in Leesburg and mid-level training in San Diego. Team training has also been extensive. Training continues to be a top priority for ODO. Included in ODO's 1996 Training Plan are both trade specialist training for an EAC environment and administrative management training for a designated point of contact in each USEAC.

13. Encourage creativity in servicing clients and better integrate among partner agencies.

Response: USEAC site directors are given the lead in developing creative solutions to problems associated with client service. USEAC site directors were selected with a consideration given to their creativity and resourcefulness in managing personnel and partners to better serve clients.

ODO's Performance Measurement Review team has examined, in depth, performance measures that would more accurately reflect

actual accomplishments rather than activity. The findings of the PMRT are being implemented as a means to encourage as much client contact and actual export results as possible.

There is a great ongoing effort on the part of ODO field staff and all of our partners in the USEAC system to more fully integrate all of our services so as to better be able to service our clients. In fact, high level officials from the CS, SBA and ExIm spoke on this subject at the most recent USEAC site director's meeting. It was agreed that we have achieved the first step towards complete integration, colocation. The challenge facing us is to integrate all of our services in a "seamless" delivery system. One means to foster greater integration is the performance appraisal process. To the extent that each partner in a USEAC has input into the appraisal of the other partners (in terms of performance and results) greater integration of our collective interests will be achieved. The USEAC site directors have been charged with the task of making some type of integrated performance appraisal system work.

Responses to Other Observations

There are observations in the body of the IG report not specifically mentioned in the recommendation which we feel need to be commented on.

Page 8 of the IG report states that the CS has not properly tested the "hub and spoke" component of the USEAC concept. It is important to note that Phase 1 of the hub and spoke system was designed to provide trade finance support from the USEACs to the DEACs. This is not made clear in the IG report. The Baltimore USEAC, for example, has conducted considerable training and outreach to its spoke sites in Charleston, WV, Wheeling, WV, and Richmond VA. Baltimore started planning efforts in April and May to work with DEACs on trade finance support. These efforts are accelerating and will continue to do so in the future.

Page 16 of the IG report states that USEAC marketing efforts have been hampered by the absence of printed brochures. This problem has been remedied. There is now a multicolored high quality, professional looking EAC brochure that has been made available to all of the offices. These brochures were widely distributed at the USEAC and DEAC openings.

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VI. Recommendations

We recommend that the Assistant Secretary and Director General, US&FCS, in consultation with the appropriate officials, take the necessary actions to address the following recommendations:

1. Take immediate measures to ensure that, at a minimum, each hub location is assigned at least one full-time trade finance expert. More specifically, the following options should be pursued:
 - A. Request the Secretary of Commerce, as chair of the Trade Promotion Coordinating Committee, to strongly encourage the Export-Import Bank to redistribute or increase its regional staff resources to provide at least one full-time person to each Export Assistance Center hub location.
 - B. Have US&FCS and ITA officials give prompt and priority consideration to recruiting and hiring experienced trade finance specialists in its hub locations. This should be an absolute priority for any USEAC hub that does not have a full-time finance specialist from the Ex-Im Bank.
2. Request the Secretary of Commerce, as chair of the Trade Promotion Coordinating Committee, to strongly encourage SBA to honor its commitment to the planned level of field staff resources to the Export Assistance Centers. Concurrently, develop an alternative strategy that will effectively address any voids or problems created by SBA's inability to fully honor its earlier commitment.
3. Work with the Assistant Secretary for International Economic Policy, the Assistant Secretary for Trade Development, and the ITA Director of Administration, to ensure that the appropriate levels of internal cooperation and coordination are established and maintained that will, to the maximum extent possible, ensure that:
 - A. All ITA employees involved in export promotion activities with the public have a working knowledge of the hub and spoke network and that they clearly understand their respective roles and responsibilities.
 - B. ITA's many priorities and initiatives (e.g., Big Emerging Markets, Showcase Europe, etc.) are managed to effectively complement each other.
 - C. Priority consideration is given to filling the key jobs in the Export Assistance Center hubs and major spokes with experienced personnel with a variety of trade and commercial experience both in the United States and overseas. This should include reallocating ITA headquarters resources, as necessary, to ensure that these key positions are filled with qualified staff.

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4. To widely test, demonstrate, and promote the *validity* and *potential* of the USEAC hub and spoke concept, give prompt and priority attention to rolling out a complete "showcase" hub and spoke network in one region. This model hub and spoke network should be one that (1) has great potential to succeed, (2) can be put in place quickly, and (3) can be operated with all of the desirable partners and components (*i.e.*, US&FCS, SBA, and Ex-Im Bank) and other important resources (*e.g.*, information technology, telecommunications, state and local partners, and Senior Commercial Officers).
5. Develop and implement a comprehensive overhaul of US&FCS's domestic and overseas resource allocation and field management structure to effectively address emerging USEAC resource needs world wide, linking the strategy, planning and execution of several initiatives to ensure that US&FCS:
 - A. Re-evaluates the need for, and reconfirms the choice of all 83 USEAC spoke locations, by: (1) justifying the need for the dozens of small offices it intends to establish, which appear to offer diminishing returns for the significant investment involved; (2) determining whether the choice of locations is still valid after using the more recent 1992 economic census data for the allocation matrix and selection criteria; and (3) making the necessary adjustments to the total number and location of USEAC spokes.
 - B. Develops and implements a system for periodically evaluating and adjusting (1) US&FCS resources allocated to all of the USEAC sites, and (2) the location of the spoke offices, as necessary. In this regard, US&FCS should ensure that it incorporates a high degree of flexibility into the USEAC site rollout plans that will routinely respond to changing business patterns and avoid having its hub and spoke network become obsolete.
 - C. In conjunction with parts A and B above, re-distribute US&FCS human resources, through directed assignments if necessary, to domestic field locations as determined by the resource allocation matrix to maximize the agency's trade promotion goals and objectives.
 - D. Thoroughly re-examines the continued need for its regional manager structure and explores alternatives to providing improved management oversight of the hub and spoke network.
 - E. Develops a clear and concise strategy aimed at simultaneously (a) promoting US&FCS's foreign and domestic "integration" initiatives, and (b) developing a plan to staff the USEACs with personnel having significant overseas trade experience, *e.g.*, by providing incentives to encourage Foreign Service Officers to bid on domestic tours, making directed assignments of FSOs to domestic

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positions, and offering excursion tour opportunities to USEAC staff members.

6. Explore additional ways to improve and further enhance US&FCS overseas personnel's knowledge and understanding of the actual workings of the USEAC hub and spoke network (e.g., arrange for Senior Commercial Officers to spend time in the hub and spoke network, and arrange for key foreign service officers to attend US&FCS regional training sessions).
7. In consultation with the Senior Policy Working Group, develop a system for identifying, measuring, and reporting programmatic accomplishments unique to a USEAC.
8. In consultation with the Senior Policy Working Group, develop a management structure for USEAC site directors to have primary authority and input over important USEAC budget matters, employee performance appraisals, local program strategy, and other actions that will enable the USEACs hubs to function as a unified entity instead of as separate government units that happen to be collocated.
9. Ensure, to the maximum extent possible, that USEAC sites have the full range of telecommunications and computer technology to put trade specialists in closer contact with their clients and improve their ability to provide out-of-office counseling.
10. Evaluate options for offering additional information products, such as the Internet and other business-related online services, to USEAC staff and their clients, and for delivering the National Trade Data Bank in a more user-friendly medium.
11. Develop a strategy aimed at resolving potential conflicts which may occur as a result of USEAC hub locations being determined by "natural trading regions." Each USEAC hub must serve a multi-state network of spokes, whereas the Ex-Im Bank city/state representative (as in the Baltimore USEAC) must first and foremost serve the local interests and priorities that govern the use of state and local government trade finance resources.
12. Ensure that training for all persons involved in the USEACs remains as a top budget and program priority to meet the evolving and changing needs of the hub and spoke program, information technology demands, and the dynamics of ITA's export promotion initiatives. In particular, work with other federal agency partners (such as SBA, Ex-Im Bank, and U.S. Agency for International Development) to ensure that they make resources available for training their staff assigned to the USEACs and participate fully in joint training.
13. Encourage, through incentives and other means, greater innovation and creativity by

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USEAC site directors and their staffs in using their resources to develop new clients, offer expanded services to old clients, and better integrate among their partner agencies.



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

February 8, 1996

MEMORANDUM FOR: NORBERT GANNON
JIM RIGASSIO
THE COMMERCIAL SERVICE

FROM: Eileen Cassidy *[Signature]*
(A) Assistant Administrator and Director of International Trade

SUBJECT: Comments on Draft Report on Inspection of U.S. Export Assistance Centers (IRM-7130)

CC: Lauri Fitz-Pegado (DOC)
Dan McLaughlin (DOC)
Jeanne Sclater
Jean Smith

Thank you for allowing us the opportunity to comment on the Inspector General (IG)'s Draft Report on the Inspection of U.S. Export Assistance Centers (USEACs). We have reviewed the report and would like to take this opportunity to provide some specific comments about the IG's findings and recommendations regarding SBA's involvement in the USEACs.

Overall comment: the delay in issuing the report makes many of the comments and concerns faulty or no longer applicable. In addition, there are several misstatements of fact which underline several of the assumptions and conclusions. We will address those individually below:

1) We strongly object to the title in the Table of Contents under Section III/B entitled "SBA's Promised Resource Support Significantly Reduced" (and references to this issue on pages 10, 13, 20-21, 23-24, and 34). It should be noted that SBA never promised anything other than what has been delivered: two personnel at each "pilot" USEAC and one person at the remaining eleven sites. However, we have made attempts to supplement SBA resources at the USEACs through partners. At two USEACs (Atlanta and Seattle), we have arranged to have representatives from local Small Business Development Centers (SBDCs) physically present at the sites. It should be noted that SBA has contracted 30 intermediaries across the country to serve as loan packagers for our export finance services. These intermediaries are monitored by SBA personnel at the USEACs who also are responsible for processing their loan submissions.

In this regard, the IG made no mention of the fact that SBA has far more resources devoted to trade finance than at any previous time. For the first time, SBA has FULL-TIME personnel in the

field dedicated to delivering trade finance assistance to small businesses. Prior to SBA's commitment to the USEAC program, loan officers in SBA district offices delivered export finance assistance to small businesses as part of a collateral duty

Of particular concern is one of the recommendations listed on page 34 (#2) which "*requests*" that "*the Secretary of Commerce, as chair of the Trade Promotion Coordinating Committee (TPCC) strongly encourage SBA to honor its commitment to the planned level of field staff resources to the Export Assistance Centers. Concurrently, develop an alternative strategy that will effectively address any voids or problems created by SBA's inability to fully honor its earlier commitment.*"

We do not believe it is appropriate that the Secretary of Commerce dictate SBA's staffing levels when SBA has made considerable staffing and resource commitments to USEACs and has been a team player with Commerce since the beginning of this initiative. In addition, SBA has received no evidence that there were problems associated with a perceived shortage of SBA personnel at the USEACs. We would like to review the evidence the IG has received to this effect.

2) There was no explanation provided to the comment made on page 7, item 4: "*There are some problems that require management's attention...*" as it pertains to SBA and Ex-Im Bank's lead role on "finance" strategics. What are the problems???

3) Page 13 (4th paragraph): The statement, "*It is very important that SBA and US&FCS receive substantive training in trade finance...*" assumes that SBA does not have adequate trade finance experience or expertise. The IG may not recall or know that SBA, along with Ex-Im Bank, trained US&FCS personnel in trade finance during USEAC training sessions. In addition, all SBA USEAC personnel completed internal training on the Export Working Capital Program (EWCP) in the summer of 1994, prior to any additional USEAC openings.

4) Page 14 (last paragraph): The tone of the paragraph is again reflective of the theme of the report regarding SBA's presumed "lack of commitment to the USEACs." In addition, it should be noted that joint counseling is being conducted on a regular basis at the Long Beach USEAC.

5) Pages 17& 18: In the discussion of the Baltimore USEAC, the report states that SBA had a "*...a failure to completely understand the role that its team would serve in the USEAC...and therefore hired the wrong type of personnel for the USEAC positions.*" It also addresses who would be responsible for the hiring of personnel. The IG may not know that SBA assisted in the initial design of the USEACs as well as the programs and services provided. SBA worked closely with DOC for several months regarding the role of the participating agencies and their personnel. The IG may not know that SBA's Office of International Trade hired personnel to staff the first four USEACs (the same people who were on the USEAC design team) and the SBA District Directors hired personnel for the remaining 11 sites.

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6) Page 19 (Long Beach issue) We are pleased that the IG recognizes the progress made at the Long Beach USEAC and the site director's attempts to resolve some sensitive personnel and morale issues. The IG failed to address some problems associated with US&FCS' decision to keep the DOC District Director operating at a separate site. This separation has had a definite, and sometimes, negative impact on the operations at the Long Beach USEAC. WE would like the IG to recognize the strain this has placed on the current site director's ability to effectively manage the USEAC.

7) Page 23/Loan approval authority: The report states that the IG *"suggested that SBA grant loan approval authority to the USEAC hubs..."* While this suggestion was considered by SBA, there is a lack of understanding by the IG regarding the ability for SBA to grant such authority. The agency's policy is that there must be both a recommending and approving official to ensure the integrity of the loan approval process. Although there is a possibility that loan approval authority could be granted to 3 USEAC sites where there are two SBA personnel, this would limit their flexibility in spending time marketing the USEACs trade finance services among the lending and small business communities -- an important aspect of their job

8) Page 24 (second paragraph): *"Without the second loan specialist, the USEACs may not be able to handle the expected volume of trade finance business."* When SBA first became involved in designing its presence at the USEACs, it took into consideration the vast SBA district network (69 offices) which is prepared to handle additional loan volume if the USEAC trade finance specialists become overburdened. We have never received complaints from the lending or small business communities regarding the perceived shortage of SBA personnel at the USEACs. However, when addressing the perceived lack of trade finance resources at the USEACs, the IG singles out SBA with no mention of Ex-Im Bank.

These are our general concerns. We hope the IG will address them before issuing a final report. Please let me know if you have any questions.

Thank you.



EXPORT-IMPORT BANK
OF THE UNITED STATES

January 29, 1996

TO: Dan McLaughlin, DAS
Norbert Gannon
James Rigassio
The Commercial Service

FROM: Richard Feeney
Eximbank

SUBJECT: Draft Report on Inspection of U.S. Export
Assistance Centers (IRM-7130)

I appreciate your providing me with a copy of the draft report for my review.

The principal concern in the report relating to Eximbank is our unwillingness to assign full-time staff to each of the Regional USEACs. Related concerns are that our five Regional Offices will not be able to handle the expected increase in demand for trade finance services, and that our City/State program is largely inactive ("only 8 of the 30 City/State participants are active,") and the participants lacking in experience.

We remain convinced that a combination of our Regional Office staff and City/State participants are able to respond to all Regional USEAC needs for Eximbank services.

City/State applicants are required to have two full-time professionals trained in our programs, and present an annual budget and marketing plan that evidences their commitment to trade finance and is acceptable to Eximbank. Eximbank recognizes the top five program participants each year; it is erroneous to assume that all others are inactive.

All but one of the first 15 Regional USEACs either have a full-time Eximbank presence or a qualified City/State participant providing support. The sole exception is Denver. In addition to regular visits by our Long Beach staff, the Denver USEAC is fortunate to have an SBA officer long known to Eximbank as a capable finance professional.

Eximbank recently made changes to our City/State program to compensate participants for their assistance to exporters utilizing our programs. This should have a positive impact on the number of participants and their commitment to our programs.

We also made changes to our Working Capital Guarantee Program to foster greater bank support for small business exporters. Given that the very large majority of Eximbank authorizations are in the form of insurance or guarantees, greater commercial bank involvement in our programs will benefit small exporters.

Two other items from the draft report require comments:

- SBA does not contribute to the costs of City/State representatives providing USEAC support; and
- The apparent conflict noted when an exporter goes to a "spoke" USEAC in, for example, Richmond, Virginia, and is referred to the regional center in Baltimore where support is provided by MIDFA (whose goal is to increase usage of the Port of Baltimore) should not exist. In this example, the exporter should be referred to our City/State partner, the Virginia Small Business Finance Authority, located in Richmond for assistance. With well over two dozen current participants and several others being considered for membership, this type of conflict should be rare, if seen at all.



UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington D.C. 20230

DIRECTOR GENERAL OF THE U.S. AND
FOREIGN COMMERCIAL SERVICE

**Testimony of Assistant Secretary and Director General Lauri J. Fitz-Pegado
Before the Subcommittee on Procurement, Exports and Business Opportunities,
Committee on Small Business, House of Representatives
Thursday, July 25, 1996**

INTRODUCTION

Mr. Chairman, I would like to thank you, Representative Clayton and the Members of the Subcommittee for providing me with the opportunity to speak to you about one of the true success stories in government: the U.S. Export Assistance Center Program. As you are well aware, exports are essential to the economic strength and security of this nation. In fact, exports now account for almost one-third of real U.S. economic growth and are expected to grow faster than overall economic activity for the remainder of this decade. Moreover, exports supported an estimated 11 million American jobs in FY 1995 alone. The Clinton Administration recognizes the importance of exports and the need to help American businesses, especially small companies, compete in an increasingly competitive global marketplace.

Let me take a moment to say a special word of thanks to Chairman Manzullo for taking time out of a busy schedule to attend our Rockford, Illinois District Export Assistance Center opening on July 15, 1996. Your presence and words of commendation were greatly appreciated by our staff and Illinois exporters. I am pleased that you were able to hear firsthand from our clients that they value the services Export Assistance Centers provide.

By the early 1990's it had become readily apparent to the business community that the Federal trade promotion effort needed help if it was going to serve American companies effectively in an increasingly competitive global market. In response to this urgent need, Congress passed the 1992 Export Enhancement Act which recommended that the trade promotion agencies join forces in "one-stop shops" and which also called for the Administration to rejuvenate the Trade Promotion Coordinating Committee (TPCC).

Under the guidance of the late Secretary Ron Brown, the TPCC issued its report *Toward a National Export Strategy* in September 1993 and set in motion the Export Assistance Center initiative. The Report called on Commerce's U.S. and Foreign Commercial Service (the Commercial Service) to join forces with the Small Business Administration (SBA), the U.S. Export-Import Bank (Ex-Im) and, in one site, the U.S. Agency for International Development (USAID) to consolidate, coordinate and streamline federal export promotion and trade finance services to provide "one-stop" shopping for the American business community. Two and a half years have passed since we opened four pilot Centers, and I am pleased to join you today



to show how we have not only achieved the goals first set out by Congress and the TPCC, but also have expanded on that original concept to the benefit of American exporters. By fostering strong partnerships with federal, state and local trade promotion organizations; modernizing our communications and seeking to improve our client management systems to take advantage of technological innovations, and strategically placing our resources where they could serve our clients most effectively, we are well on our way to creating a truly integrated national export assistance delivery network.

THE FOUR PILOTS AND BEYOND:

In January 1994, we opened pilot U.S. Export Assistance Centers in Baltimore, Chicago, Long Beach and Miami and for the first time brought together under one roof representatives from the different trade promotion agencies. Rather than rest on our laurels, however, we began working on the TPCC report's directive to "review other cities throughout the United States to determine the potential for future sites... based on an analysis of state-by-state export data and other measures of current and projected economic activity as well as substantial input from concerned agencies." The TPCC recommended that we "identify 10 new sites by June 1994 and establish them in CY 1995." We also worked to meet the Committee's recommendation that the participating agencies conduct extensive evaluations to "help the TPCC evaluate operational start-up issues, concerns and problems."

While selecting the sites for the next round of Centers, we recognized that the needs of our clients demanded something more fundamental than merely co-locating federal partners in a collection of individual offices. Instead, we set out to create a network that would enable us to bring the consolidated services first envisioned by Congress to the greatest number of American businesses possible. To do so, we created a regional "hub" and "spoke" system designed to effectively service regional trading areas. With interagency U.S. Export Assistance Centers serving as the hubs and smaller Commercial Service District EACs as spokes, we have expanded significantly our accessibility to the business community. These offices use electronic links and state of the art communications technologies help the Centers deliver more services faster to more of our target clients: export-ready firms i.e., those with the commitment and resources to establish or expand export operations.

The EAC program has relied heavily on client input from its inception. The Commercial Services' Office of Domestic Operations had the unique advantage of a vast domestic field network of offices all around the country. These offices served as our direct links to the exporting community and its particular needs. In fact, as we rolled out the first group of new offices after the pilots, we met with local trade promotion organizations, government partners and business communities in each city to determine the optimal structure and location of these offices. In addition, our field offices have always maintained strong partnerships with state and local export promotion organizations; relationships that laid the foundation for increasing the effectiveness of our export assistance services. Whenever possible, we have co-located

EACs with other public and private partners (such as World Trade Centers, state development agencies, port authorities) to improve the range and depth of services available at a single site.

DIVISION OF LABOR

Each EAC offers one-on-one counseling to businesses with export potential, particularly small and medium-sized ones. Export-ready clients may have already exported to a limited degree and are seeking to expand their overseas sales by launching their products into new markets. These clients benefit from the counseling services of Commercial Service officers in the EACs who work with clients to evaluate their needs and help them develop customized international business strategies. They work with firms to determine their export potential, find new markets and plan market entry strategies based on their experience and commitment to exporting.

SBA and Ex-Im Bank professionals at the EACs complement the export marketing counseling offered by the Commercial Service, with trade finance counseling. EAC staff assist businesses in obtaining export credit insurance, pre-export financing through working capital loan guarantees and medium and long-term loans and guarantees to overseas buyers. Increasingly, small and medium-sized export ready firms look to expand their overseas markets through working capital loans and export insurance that can help increase their capacity and reduce the financial risks of international trade. Through joint counseling sessions and coordinated off-site visits, the EAC staff have streamlined the export assistance process significantly. While the EACs focus on export-ready firms, the interagency referral mechanism within these offices ensures that even the most neophyte exporter receives the services needed to eventually take their business overseas. Thus, the key to the EACs' success lies in their ability to leverage federal, state and local trade promotion resources to ensure that clients receive the expert assistance they need most, whether it comes from the Commercial Service, SBA or a state or local partner.

OFFICE LOCATIONS

To date, we have opened USEAC "Hub" offices in the following 14 cities: Chicago, Miami, Baltimore, Long Beach, Seattle, Cleveland, Dallas, Denver, St. Louis, New York, Philadelphia, Atlanta, Boston, and New Orleans and today we are opening a USEAC "hub" office in Detroit. As I have mentioned, we have further developed this integrated network by creating "spoke" offices that are readily accessible to the greatest number of clients. To that end, we have opened 14 brand new District Export Assistance Centers (DEACs). Secretary Kantor announced the conversion of the rest of our field network, over 50 district and branch offices, into DEACs at the May 10th National District Export Council meeting in Cleveland. On May 23 the Secretary also announced Commerce's intention to put a USEAC in Charlotte, North Carolina.

U.S. Export Assistance Centers represent the future of federal export promotion efforts. To extend the services of these Centers to all of the nation's exporters, the Commercial Service plans to open approximately 16 new DEACs offices in suburban areas to bring its trade specialists closer to their clients and complete the export promotion infrastructure of a national EAC network. This network will allow the federal partners to provide enhanced export marketing and trade finance services to a greater number of exporters than ever before. The design uses electronic links and communications technology to make the most of the limited federal resources. The new network also relies on close cooperation with state and local, public and private partners to effectively provide the level of service required by small and medium companies striving to be successful exporters.

GAO RECOMMENDATIONS

I am pleased to report that we have made great strides in following the intent of the 1992 Export Enhancement Act and the recommendations of the National Export Strategy. I would add that we have gone far beyond the "one-stop-shop" paradigm, and now attribute our ability to better serve more client with fewer resources (or in other words "doing more with less") to our EAC network.

These are not simply my observations. Under the leadership of my Deputy Assistant Secretary for Domestic Operations, Daniel J. McLaughlin, our Office of Domestic Operations has received or been nominated for several prestigious awards. The Export Assistance Centers initiative won the Vice President's Hammer Award for Reinventing Government as well as the Public Employees Roundtable's National Public Service Excellence Award in the Inter-Agency category. We are also finalists for the prestigious Ford Foundation/Kennedy School "Innovations in Government Award."

The national "hub and spoke" network of Export Assistance Centers has provided a tool for leveraging existing federal, state and private sector export assistance resources. Over the past two years our domestic field has experienced a 20% reduction in staff caused by an internal hiring freeze. In spite of that, the Export Assistance Center network has enabled the Commercial Service's domestic field staff to increase its export actions by 80% while at the same time increasing the number of offices by 30%. By export actions I mean export sales that our clients attribute to the assistance we provide.

The General Accounting Office (GAO) and the Department of Commerce Inspector General (IG) are our partners in the roll-out of the EACs. We welcome their guidance to fine-tune our operations and improve upon this successful initiative.

Based on its review of our operations in the spring of 1995, GAO asked the Secretary of Commerce to work with the Chairman of Eximbank and the Administrator of SBA to address three recommendations for improving the EACs. Let me summarize the recommendations and the progress we have made to date:

1. **Give USEAC Directors input into USEAC staff performance appraisals:** Commerce and SBA staff have already agreed to allow USEAC directors to provide at least 15% of USEAC staff's performance rating, regardless of agency affiliation. This proposal will take effect in fiscal year 1997. Although we are not able to use a single performance evaluation form for multiple federal agencies, SBA and Commerce have harmonized the weight given to USEAC director input.

Teamwork is very important in USEACs. In the spirit of a team approach to assisting U.S. exporters, the Commercial Service is currently considering a 360° performance appraisal system for domestic field staff. 360° feedback allows superiors, subordinates, peers, clients, **and partners to provide input** to help evaluate an individual's performance. However, we recognize that other agencies have had mixed results with such an evaluation system so, as a first step, EAC staff have proposed a simpler upward feedback pilot -- to involve 8 USEACs beginning in FY 97. Through this mechanism, staff would have the opportunity to contribute to the evaluations of EAC Directors. Commercial Service and SBA staff have already discussed plans to involve SBA personnel in this exercise.

2. **Establish a USEAC-specific customer tracking system:** We recognize the importance of developing a systematic approach to sharing client information -- an automated customer tracking systems that contains information on clients and services provided to them by all agencies in EACs. Given the abundance of commercially-available contact management software, we decided to move to a more flexible, off-the-shelf system. As Ex-Im strongly recommended its Goldmine system as a viable alternative, we implemented an inter-agency Goldmine pilot involving two SBA representatives from the Seattle and Cleveland USEACs and ten Commercial Service field staff. We periodically consulted Ex-Im staff on their own progress and experiences with Goldmine. Preliminary feedback from Commercial Service and Ex-Im staff indicated this system did not meet our needs for extensive client tracking, leading us to investigate alternative off-the-shelf systems.

After considerable research and reflection, we decided on a Lotus Notes communication platform which will ultimately be used for client tracking. This groupware application allows multiple users around the world to access and add to common documents and databases, sharing information in close to real time. Not only does this allow USEAC partners to share client records amongst themselves and with overseas posts, but it allows them to access the informational resources of other Lotus Notes users -- for example, ITA International Economic Policy and Trade Development's databases and, specifically, those of the Trade Information and Advocacy Centers. Since Lotus Notes has the most sophisticated encryption capabilities on the market, it ensures the confidentiality of sensitive financial information which is not commonly stored on CIMS.

The Lotus Notes platform also has many time-saving capabilities. For example, USEAC staff will be able to search their client database by any criteria they desire, have Notes automatically drop the contact information into a pre-designed recruitment letter, and send the broadcast fax directly from the screen. Lotus Notes also has an excellent interface with the Internet, allowing users to post, update, and retrieve information off the World Wide Web with little additional effort -- an excellent way to share information with clients and partners.

We expect to make Phase I of the Lotus Notes deployment, involving five EACs and 8 overseas posts, operational by the end of this calendar year. For a minor investment in software, USEAC partners will be able to access and add to Notes databases. Since one can easily export Notes data to other off-the-shelf client tracking systems, or even to an Internet-based format, EAC partners will still be able to share Commercial Service client records if they choose to maintain off-the-shelf systems similar to Goldmine.

3. **Set up an accounting system that tracks costs of operating USEACs:** The inter-agency working group on Finance & Administration attempted, from the beginning, to develop coding patterns that would accurately track USEAC expenditures within Commerce's existing accounting system. Unfortunately, the limitations of that system, combined with the complex cost-sharing methodology established by the original Memorandum of Understanding, quickly made the tracking process unmanageable. In response, we opted to move to a flat fee system of reimbursement, which we incorporated into a revised MOU. The new MOU has been signed by three of the partners, and we expect AID to sign shortly. We also began to develop a Lotus Notes-based financial tracking system which will ultimately provide document-level detail of agency and USEAC expenses. While we cannot use internal financial records to bill for reimbursement, we can use them to monitor and periodically adjust inter-agency fees, thus avoiding the difficulties presented by Commerce's accounting system. We implemented this new Notes-based system four months ago in our regional administrative offices and our headquarters. As part of the Phase I Lotus Notes deployment, five USEACs will have Notes by the end of this calendar year and able to access their financial data accordingly. In the meantime, USEACs will continue to maintain internal records on Lotus 1-2-3 spreadsheets developed for that purpose.

I would like to suggest that we have gone beyond the intent of GAO and IG recommendations to increase the efficiency and effectiveness of our own program delivery to U.S. exporters. We have expanded on the EAC design to include state and private sector participation. This widening and deepening of EAC "partnerships" is our answer to providing exporters with valuable assistance in a time when resources for export assistance are being reduced at all levels.

CONCLUSION

The real test of our success is the impact we have on our clients' businesses. In the two years since Export Assistance Centers have become operational, that impact has increased dramatically.

1. In FY 95, the Enhanced Export Assistance Center network generated a 40% export action increase over the previous year. Export actions represent the number of overseas market entries EAC staff directly facilitated.
2. Export Assistance Centers processed 215 SBA export working capital program loan guarantees worth a total of \$77 million. This translated into approximately \$231 million in export sales for small and medium-sized businesses.
3. Ex-Im's city-state partner in the Baltimore USEAC, the state of Maryland, completed 252 loan guarantees totalling approximately \$52 million. These loans supported \$56.6 million in actual 1995 exports with another \$21.5 million to be shipped in 1996.
4. More than 92% of the 395 clients who responded to our 1995 quality assurance survey were either satisfied or very satisfied with the quality of service they received at our offices.
5. From 1994 to 1996, we project an 86% increase in export actions. As of March 31st, We had achieved 44% of our 1996 goal, despite the six-week government shutdown last winter and despite field staffing reductions of up to 20%.

In closing, let me give you an example of what this program means in real terms. David Spann, Director of the Delta USEAC in New Orleans, recently wrote the following to describe the atmosphere and attitude in that interagency operation:

Established goals for individuals are considered goals for the USEAC as a whole, and therefore staff performance is in part measured by the success of all parties in obtaining their goals... [Commerce] Trade Specialists found that by helping [the SBA] Finance Specialist achieve his goals, export actions would follow and thus help them to meet their own goals. By the same token, the Finance Specialist found that by involving the Trade Specialist with loan activity, the demand for loans increased and helped him to attain his own goals. In the past six months, the Delta USEAC has approved four export working capital program (EWCP) loans. All of these companies were Commercial Service clients whose growth was heavily impeded by lack of additional capitalization. In fact, one company would have lost \$70,000 in sales if the

EWCP had not been available....All members of the staff work hard to identify themselves with the Delta USEAC rather than any one agency... We are now generally recognized as the Delta USEAC in the community and by our partners and our clients.

Though we have not yet achieved this level of integration at all sites, we have made great strides toward overcoming the distinct corporate cultures that made such coordination seem virtually impossible just three short years ago. I am encouraged that the national network of Export Assistance Centers will soon bring such seamless export marketing and trade finance to business communities across the nation.

Attachment 1SUCCESS STORIES

Filtration Treatment Systems has been a client of Commerce's **Seattle, Washington** office, now the Seattle USEAC, since it was recruited in the fall of 1994 to participate in an Export Trade Assistance Partnership environmental industry export training seminar, a combined effort of the Commercial Service, the Small Business Administration and the State of Washington Department of Trade and Economic Development. The program provided Filtration Treatment Systems with export training classes focussing on market research and identification and financing followed by a specialized market assessment program offered through the University of Washington. Throughout the process, a Commerce Trade Specialist offered counseled the company with regard to market identification and helped them to develop an international business plan. Filtration Treatment Systems ultimately selected the Singapore market as a good starting point for a new exporter, as well as a good springboard for Indonesia and Malaysia.

Throughout the year, the Trade Specialist referred the company to a number of appropriate shows in the Asian market, two of which the company ultimately attended, presenting a technical paper at one and meeting a joint venture partner at another.

Although their first export sale was small (two oil/water separators valued at \$5,000 per unit), their long term view, coupled with a great joint venture partner and persistence in the market paid off. The company recently shipped a \$750,000 water recycling system to Singapore to a manufacturer of printed circuit boards. They also report they have additional projects in the works and expect to do over \$3 million in that market this year. One of the company's goals in their business plan, developed through the interagency Export Trade Assistance Partnership, was to become a Commerce Department success story.

Contact: Jeff Pettey, President
 Filtration Treatment Systems
 7118 S. 220 Street
 Kent, WA 98032
 Telephone: 206/872-9007; Fax: 206/872-9004

Corrosion Consultants, Inc., benefitted from the cooperative efforts between the **Detroit, Michigan** USEAC's Commercial Service and Small Business Administration representatives. Corrosion Consultants, Inc., manufactures automotive aftermarket chemicals and has received on-going export marketing counseling from the Commercial Service. This assistance included market research reports ranging from Industry Sector Analyses to Country Commercial Guides. In response to the company's need for financing, the Commercial Service referred the company's president, Mr. Vic Shanley, to the local Small Business Administration (SBA) loan officer, as well as the Export-Import Bank (Ex-Im Bank) marketing officer in Chicago who covers Michigan. Consequently, Corrosion Consultants received a working capital guarantee from the SBA and export insurance from Ex-Im Bank. Export sales have increased ten-fold over the past year and the firm has entered 16 new markets. Most importantly, as a result of its increased export sales, Corrosion Consultants has hired three new employees.

Contact: Mr. Vic Shanley, President
Corrosion Consultants, Inc.
16099 Common Road
Roseville, MI 48066
Telephone: 810/772-0200 (800-999-7583); Fax: 810/772-1430

Perfect Measuring Tape has been a Commercial Service client for almost 20 years. The company is an E-Award recipient, and the President, Mr. Andrew Bohnengel, is a member of the Northern Ohio District Export Council. Aside from providing general counseling, trade lists and marketing intelligence for penetrating the Brazilian market, DEAC Director Bob Abrahams collaborated with Ex-Im Bank representative, Bradley Dunderman, in providing foreign credit insurance to help an export sale go forward. Mr. Bohnengel and his consignee were having problems with Brazilian foreign exchange and import licensing regulations. The export sale (\$7000) did not warrant a letter of credit, inasmuch as the bank charges as a percentage of the sale were rather high. Since Perfect Measuring Tape was dealing with a new customer and unwilling to sell under open account terms, the answer was found in foreign credit insurance.

Contact: Mr. Andrew Bohnengel, President
The Perfect Measuring Tape Co.
1116 Summit Street
Toledo, OH 43604
Phone: (419) 243-6811

STATEMENT BY

**JOHNNIE E. FRAZIER
ASSISTANT INSPECTOR GENERAL FOR
INSPECTIONS AND PROGRAM EVALUATIONS
OFFICE OF INSPECTOR GENERAL
U.S. DEPARTMENT OF COMMERCE**

**BEFORE THE
SUBCOMMITTEE ON PROCUREMENT, EXPORTS,
AND BUSINESS OPPORTUNITIES
COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES**

JULY 25, 1996

Mr. Chairman and Members of the Subcommittee, I am pleased to be here today on behalf of the Office of Inspector General to discuss the status of the U.S. Export Assistance Centers and the efforts of the three participating federal agencies (Commerce's U.S. and Foreign Commercial Service, Small Business Administration, and Export-Import Bank) to create "one-stop shopping" for U.S. exporters. I will briefly highlight our recent observations on the centers as contained in our March 1996 OIG report, *U.S. Export Assistance Centers Offer Reason for Optimism, but May Fall Short of Expectations*.

The Office of Inspector General has long recognized the need for improved coordination of the federal government's export promotion efforts. During more than a decade of inspections by our office of individual U.S. and Foreign Commercial Service field offices--which included many interviews with both U.S. exporters and representatives of public and private export-oriented organizations--we frequently identified gaps in the effective delivery of export promotion and

trade finance assistance to U.S. exporters.

At the same time that the 1992 Export Enhancement Act was being debated and ultimately became law, we were completing a major program evaluation of the Department's trade promotion efforts. In March 1993, we issued a report on these efforts (*Assessment of Commerce's Efforts in Helping U.S. Firms Meet the Export Challenges of the 1990s*) that, in principle, supported the concept of one-stop trade shops and clearly emphasized the need for the federal government to have a better coordinated approach for meeting the export promotion and trade finance needs of U.S. exporters.

The late Commerce Secretary Ron Brown, as chairman of the Trade Promotion Coordinating Committee, recognized in his September 1993 report to the Congress the difficulty encountered by potential exporters seeking assistance due to the confusing array of federal offices and local export service providers. He proposed creating one-stop shops-- primarily consisting of representatives from US&FCS, SBA, and Ex-Im Bank--which would offer exporters improved assistance with all federal export promotion and trade finance programs, as well as integrate those export services with other local, state, and private sector service providers.

The Export Enhancement Act of 1992 directed the Commerce Department to take the lead in establishing "one-stop shops" that were to bring together the crucial federal, state, and local government, and private business services needed to better assist U.S. exporters. To develop a strategy and plan for implementing a network of USEACs, the federal interagency Trade

Promotion Coordinating Committee formed a Senior Policy Working Group, consisting of senior officials of the three agencies. This group established the first four USEACs in January 1994 as pilot sites and had set out to establish 11 more, for a total of 15 “hub” USEACs, by mid-1996. To complete the network, the plan calls for the eventual establishment of 83 satellite or “spoke” offices, most of which are former US&FCS district or branch offices, each linked operationally to one of the 15 hub or regional USEACs.

Given the growing anticipation and broad expectations associated with the one-stop shops--which by then were being referred to as U.S. Export Assistance Centers--we decided to perform an *early* assessment of the development and rollout of the USEACs. Our objectives were to assess the USEACs' progress and potential in meeting the goals and objectives of the Export Enhancement Act of 1992 and the Trade Promotion Coordinating Committee. We examined the work being performed through the USEACs, the amount of resources involved, and the adequacy of oversight by program officials. We also addressed the planning and implementation actions taken, especially those by US&FCS, to capitalize on the experience of the first four pilot centers as additional centers opened nationwide.

As one might expect from a multi-agency undertaking of this magnitude, there were difficult issues in making the USEAC concept a reality, such as (1) the logistical problems associated with relocating people and getting the centers physically open, (2) uncertain staff and budget resources, and (3) developing a program that would support the many interested and involved parties. Our evaluation concluded that some of these issues were handled well, others were

handled poorly, and some were not handled at all.

Once the interagency project to establish the USEACs was approved, cognizant representatives from the three participating agencies embarked upon an ambitious schedule in late 1993 calling for much to be done in a relatively short time: The four pilot USEAC sites had to be selected, renovated, and furnished; concepts, policies, and procedures had to be developed, tested, and implemented; and USEAC staff members had to be recruited, relocated, and trained. At the time of our review, the four pilot USEAC sites (Baltimore, Chicago, Long Beach, and Miami) had been operating for less than a year, and planning was well underway for significantly expanding the USEAC network with 11 more sites during fiscal year 1995.

Among the positive observations made during our review, we found that:

- o Under the primary leadership of US&FCS managers, the participating agencies put a great deal of effort, dedication, and creativity into designing and implementing the USEAC program.
- o The choice of four pilot sites to test the USEAC concept was good for it allowed different approaches, ideas, and theories to be tried in delivering services to the clients or in referring them to the appropriate public and private sector partners.

But probably the most positive observation and our cause for optimism was found in the views

expressed by the majority of U.S. exporters, representatives from the private sector, and federal, state, and local government personnel who had worked with the pilot centers. We found them hopeful that the USEACs would better link the federal government's trade finance resources with export marketing services. It was also the consensus of those interviewed that the USEAC concept, if properly implemented, would better utilize the considerable trade finance and trade promotion resources available through state and local government, and private resources.

Among the problems we noted were:

- o The early training programs for the USEAC staff assigned to the pilot sites lacked focus and depth and did not properly prepare some staff to carry out all functions of the centers.
- o Joint counseling and "team" building by the three agencies' staff at some sites got off to a very slow start--leaving this integral part of the USEAC concept to chance and uncertainty.
- o Some management, leadership, and staffing problems surfaced at the pilots but were not addressed quickly--often allowing them to fester. For example, there was uncertainty about the authority of the site directors over their program flexibility, budgets, staff's performance appraisals; concern about staff capability; and confusion about performance measures.

Fortunately, many of the pilots' problems that surfaced could be, or were being, resolved as the USEAC program evolved. After all, pilots are intended to serve as a prototype for future

development after identifying (1) things that are working well and (2) problems to be corrected and approaches to be modified *before* the final product is completed.

We were very concerned, however, that the hub and spoke arrangement of the program--developed to better leverage limited staff resources--was *not* tested during the pilot phase. In this arrangement, each of the USEAC regional or hub locations, staffed by US&FCS, SBA and Ex-Im Bank personnel, will serve as the regional one-stop shop for export promotion and trade finance services and will have anywhere between 2 to 14 district EAC spokes linked to it operationally. These spokes will be solely staffed by US&FCS individuals, and will be able to tap the necessary trade finance resources of the hub operations. Unfortunately, this crucial arrangement existed only in concept and has been tested operationally on a very limited basis. From our review, it was not clear whether or how the spokes will operate under the hubs to provide a coordinated, expanded menu of services while generally staffed only by US&FCS personnel. US&FCS officials and other program managers decided to roll out the USEAC network and *assume* that the hub and spoke component of the concept will work in practice. We were concerned, however, that there is a great deal of risk associated with this assumption, coupled with some of the other issues confronting the USEAC program, such as our concerns that:

- ◆ US&FCS/ITA had not provided the expected level of staff resources.
- ◆ SBA appeared uncertain about its ability to provide the planned level of staff resources.

- ◆ Ex-Im Bank was either unable or unwilling to make the kinds of internal adjustments to enhance the USEAC network, *e.g.*, assigning staff resources to each “hub,” or regional, USEAC.
- ◆ The program lacked a reliable and unified system for identifying, measuring, and reporting programmatic accomplishments.

During and after our review, we regularly discussed our observations and concerns with US&FCS program officials. And, in some instances, corrective measures were taken to promptly address our concerns. In responding to our draft report on the USEAC program, US&FCS officials, with input from their SBA and Ex-Im Bank counterparts, generally agreed with our observations, conclusions, and recommendations. We have informally monitored the progress and current status of the USEAC program and find there has been moderate progress. For example,

- US&FCS has provided some additional staff resources to strengthen the USEACs, and SBA expects to fulfill its original staff commitments.
- A *basic* system has been implemented for identifying and reporting “joint” USEAC programmatic accomplishments, although the three agencies still primarily pursue, and hence measure, their parent agencies' goals and objectives.

-- Improvements have been made to the training programs, most notably in the USEAC cross-team training and the trade finance training.

In summary, Mr. Chairman, I would like to say that we remain optimistic about the future of the USEACs and their potential to address the export promotion and trade finance needs of U.S. exporters. While some problems remain to be solved, we believe that the Commerce Department can work with SBA, Ex-Im Bank, and others to find solutions to improve the program to the benefit of U.S. exporters.

This completes my statement, Mr. Chairman. I would be happy to answer any questions you and other Members of the Committee may have.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Procurement, Exports and
Business Opportunities, Committee on Small Business, House
of Representatives

For Release on Delivery
Expected at
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July 25, 1996

U.S. EXPORT ASSISTANCE CENTERS

Customer Service Enhanced, But Potential to Improve Operations Exists

Statement of Jayetta Z. Hecker, Associate Director
International Relations and Trade Issues
National Security and International Affairs Division



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify before this Subcommittee on our work regarding efforts by the Department of Commerce, the U.S. Export-Import Bank (Eximbank), and the Small Business Administration (SBA) to create a nationwide network of "one-stop shops," called U.S. Export Assistance Centers (USEAC). My testimony will address both the benefits realized at the first four USEACs established as well as opportunities for improving their operations. As part of our review, we visited each of the four original USEACs¹ for a period of 1 week during May-June 1995 and obtained information, using interviews and surveys, from USEAC staff members, selected customers, and officials of nonfederal partner organizations that work closely with them. (See the appendix for more detailed information on our surveys.)

SUMMARY

Staff and customers of the four USEACs we visited believed that co-locating agency staff helped to improve the provision of federal export services. For example, about 80 percent of USEAC staff responding to our survey said that establishment of the USEACs had substantially increased customer access to the full range of federal export promotion services. Services provided by the USEACs include export finance services as well as export promotion services, such as providing trade leads and lists of overseas

¹In Baltimore, Chicago, Long Beach, and Miami.

agents and distributors. Similarly, respondents to a survey of these USEACs' "best customers" indicated a high level of satisfaction with the services of individual agencies. However, these customers also saw room for improvement in USEAC agency efforts to work as a unit to deliver services to clients.

Approximately 40 percent of the customers surveyed who stated that they had used more than one USEAC agency also indicated that they had found the second agency on their own, rather than through their USEAC contact. Several told us in interviews that USEAC staff member(s) they regularly work with did not inform them of the full range of services provided by the USEACs, even after they had expressed a need for the services of another USEAC agency. Staff we interviewed at certain USEACs stated that they were reluctant to recommend the services of another agency, even to clients who expressed a need, because they were unfamiliar with that agency's performance in delivering the service.

Currently, USEAC directors do not have the basic management tools to assure that creation of the USEACs substantially improves federal export promotion services. For example, they do not have (1) the ability to contribute to the performance appraisals of all USEAC staff with regard to intra-USEAC teamwork, (2) a USEAC-wide client tracking system with information on clients and the services provided to them, and (3) adequate authority over USEAC expenditures and a USEAC-wide accounting system that would permit

USEACs to accurately identify and allocate costs and better manage expenditures.

With this overview, let me provide some background to put these points into the proper context and then go into more detail about the benefits being derived from the USEACs, the opportunities to strengthen USEAC operations, and our recommendations.

BACKGROUND

Creation of the USEAC network can be best understood in the context of sweeping efforts made during this decade to strengthen federal delivery of export promotion services. During 1991-93, we conducted a number of reviews of federal export promotion activities. We then reported on a governmentwide effort that cost over \$2.7 billion and that was fragmented among several agencies with no overarching strategy or explicit set of priorities. Among our specific findings, we reported that U.S. firms seeking export assistance were likely to become confused and discouraged by the multiple networks of domestic offices maintained by federal agencies for delivering export services.²

Partially in response to our work, Congress enacted the Export Enhancement Act of 1992 (Public Law 102-429, Oct. 21, 1992), which created in statute the interagency Trade Promotion Coordinating

²See One-stop Shops (GAO/GGD-93-1R, Oct. 6, 1992).

Committee (TPCC) and tasked it with developing a strategic plan for strengthening federal export promotion services. This legislation also directed the U.S. & Foreign Commercial Service³--the Commerce Department agency responsible for managing its domestic field network--to utilize its district offices as "one-stop-shops." These shops would be able to (1) provide exporters with information on all U.S. government export promotion and export finance services, (2) assist exporters in identifying which federal programs may be of greatest assistance, and (3) help exporters make contact with those federal programs.

TPCC, on September 30, 1993, issued its first National Export Strategy report, which contained 65 recommendations for federal action to help U.S. exporters. Among these, the strategy recommended the creation of "one-stop shops" that would integrate primarily representatives of the Department of Commerce and SBA--two federal agencies with extensive export promotion field networks--and Eximbank. It further recommended that the agencies establish four pilot "one-stop shops" in Baltimore, Chicago, Los Angeles, and Miami. As envisioned by the strategy, these "one-stop shops" would exceed the minimum requirements of the 1992 Export Enhancement Act in that they would actually contain the staff of the three agencies rather than simply have Commerce staff provide information about these and other agencies' export programs.

³Now called the "Commercial Service."

In commenting on the National Export Strategy, we presented our views on the process for creating the network of "one-stop shops." We stated that, before establishing an expansive network, the participating agencies should first evaluate the results of the four pilots to determine whether providing the full range of export promotion services in an integrated way can increase the value to the business community of federal export promotion assistance. We further stated that the aim of the USEAC network should not simply be to co-locate or even coordinate, but "to **integrate** and make more accessible a range of export services aimed at small- to medium-sized export-ready firms."⁴ (Emphasis added.)

With Commerce taking the lead, the three agencies by January 1994 had established the four pilot "one-stop shops"--now called U.S. Export Assistance Centers. Although the TPCC's export strategy stated that these USEACs would go through a rigorous evaluation process, Commerce and its partner agencies decided to move forward with expanding the network before such evaluations could be concluded. By late February 1996, the three agencies had expanded the network to 14 USEACs, along with 10 District Export Assistance Centers (DEAC), which have

⁴See Export Promotion: Governmentwide Plan Contributes to Improvements (GAO/T-GGD-94-35, Oct. 26, 1993), Export Promotion: Initial Assessment of Governmentwide Strategic Plan (GAO/T-GGD-93-48, Sept. 29, 1993), and Export Promotion Strategic Plan: Will it be a Vehicle for Change? (GAO/T-GGD-93-43, July 26, 1993).

only Commerce staff and are connected to the USEACs in a hub-and-spoke system. Commerce and its partner agencies opened four additional DEACs by June 1996 and have plans to further expand the network in the future.

BENEFITS BEING DERIVED FROM USEACs

USEAC staff and customers, and officials of nonfederal partner organizations told us that, because of the USEACs, U.S. firms are more knowledgeable about and have access to a broader range of federal and nonfederal export services. Customers, however, also indicated that USEACs can improve the delivery of those services to the U.S. export community.

Approximately 63 percent of the USEAC staff responding to our survey said that establishment of the USEACs had increased the overall quality of export services to a great or very great extent. About 80 percent of our respondents stated that the USEACs had, in particular, substantially increased customer access to the full range of federal export promotion services to a great or very great extent. Eighty-two percent of the survey respondents also cited significant increased cooperation among the staffs of the three participating agencies, which we believe would help to expand the availability of federal export services as USEAC staff work collaboratively or refer clients to partner agencies.

During our visits to the four USEACs, we learned of some specific examples of USEAC staff taking the initiative to enhance the value of their services to exporters by working closely with federal and nonfederal partner organizations. These examples demonstrate the potential benefits that can be derived from creation of the USEACs.

- At the Baltimore USEAC, the Commerce staff made an effort, as part of their counseling activities, to generate clients for the Maryland Industrial Development Financing Authority, a state agency that provides export financing.
- At the Long Beach, California, USEAC, the director introduced the "Export-Trade Assistance Partnership" program, which sought to utilize the skills and knowledge of federal and nonfederal partner organizations to increase the export know-how of firms that are not yet ready to export.⁵
- At the Chicago and Miami USEACs, the Eximbank and SBA staffs closely coordinated their outreach efforts. These individuals were familiar with the financing services of both agencies and referred clients when appropriate.

⁵Firms chosen to participate in this program are to receive training from members of the local export assistance community that is suited to their needs. They are expected to translate that training into concrete business decisions before moving to the next level of training.

We surveyed the four USEACs' 60 "best customers" (15 for each USEAC) who had received services from more than one USEAC agency, as identified by the USEAC directors. Of the 40 "best customers" who responded to our survey, a majority stated that they were very satisfied with the export services provided by the USEACs. Their satisfaction was based on such factors as timeliness, staff knowledge, and usefulness of the services obtained.

However, the customers responding to our survey also saw room for improvement in USEAC agency efforts to work as a unit in the delivery of services. Of the 28 customers who acknowledged receiving services from a second USEAC agency, 11 (40 percent) indicated that they had found the second agency by themselves, rather than through their USEAC contact. We also found that, of the 17 customers who did acknowledge receiving services from the second agency as a result of their USEAC contact, 12 stated that they had received useful services from more than one government agency. Several of the customers we interviewed told us that the USEAC staff member(s) they regularly worked with did not inform them of the full range of services provided by the USEACs, even after they had expressed a need for the services of another USEAC agency.

OPPORTUNITIES TO STRENGTHEN
USEAC OPERATIONS

The decision by Commerce and its partner agencies to co-locate staff (rather than just meet the minimum requirements of the 1992 Export Enhancement Act) presented an opportunity to substantially improve the delivery of federal export promotion services. On the basis of our site visits, surveys, and discussions with USEAC staff, customers, and nonfederal partners, we identified certain basic interagency mechanisms that, if established, could better ensure an improved delivery of services.

Intra-USEAC Cooperation and Teamwork

Despite the increased cooperation among agency staffs, we found during our interviews with USEAC staff that they did not consistently work as a team. For example, we learned that individuals at certain USEACs were reluctant to recommend the services of another agency, even to clients who expressed a need, because they were unfamiliar with that agency's performance in delivering the service.

To better promote teamwork, USEAC directors told us they needed authority to contribute to USEAC staff appraisals with regard to intra-USEAC teamwork. To do this, the agencies would need to include on their appraisals a performance factor

on intra-USEAC teamwork and develop relevant performance measures. These performance measures could specify, for instance, the number of referrals among USEAC staffs and, possibly, how often such referrals led to export promotion or financing services.

Currently, each agency appraises its own staff. The appraisal forms for Commerce and SBA staff contain at least one factor directly relating to intra-USEAC teamwork. Commerce officials informed us that the agency informally permits USEAC directors (i.e., those who are not Commerce employees) to contribute to appraisals of Commerce staff with regard to several USEAC-related factors. SBA officials informed us that the agency has formally given USEAC directors (i.e., those who are not SBA employees) authority to contribute to appraisals of SBA staff with regard to one USEAC-related factor. The Eximbank has this issue under consideration as part of a major restructuring of the agency's performance appraisal system.

USEAC-wide Client Tracking System

To further improve the quality of services to customers, USEAC directors and staff acknowledged their need for a USEAC-wide, computer-based client tracking system. With such a system, USEAC staff would be able to readily obtain information that another agency might have on a potential client or determine

whether it has already received services from another USEAC agency. We believe that having this ability would help ensure that USEAC staff do not suggest inappropriate services or make duplicate requests for information. Such a system could also serve as a source for identifying potential clients to pursue in marketing export services.

At the time of our visits, the agencies at each of the four USEACs used a separate client tracking system. Commerce staff used the agency's "Commercial Information Management System"-- a worldwide data base that links Commerce headquarters, its domestic field network, and overseas offices. Eximbank staff used an off-the-shelf computer program for maintaining information on customers. SBA staff used mostly paper filing systems but sometimes employed the Commerce or Eximbank data bases.

Commerce had offered to make its system available to all USEAC staff but staff we spoke with did not support such a move. They generally characterized the Commerce system as slow, cumbersome, and otherwise not able to meet their needs. Some also expressed concern that placing proprietary business information on a worldwide data base could compromise its confidentiality. Although Commerce staff are required to use this system, we found that they have done so to widely varying degrees. These ranged from using it as a true client data

base, with detailed information on each customer and Commerce services received, to using it as nothing other than a list of contacts.

Commerce, Eximbank, and SBA officials recently told us that they see the development of a client tracking system as a high priority for the USEACs. They plan to install at all the USEACs an off-the-shelf client tracking system that is currently under development.

USEAC Financial Accounting and Procurement Systems

Some USEAC directors also saw the need for (1) adequate authority over USEAC expenditures and (2) a USEAC-wide accounting system that would permit USEACs to accurately identify and allocate costs and better manage expenditures. With regard to the former, our review indicated that USEAC directors did not have authority to make routine expenditures for such things as printing marketing brochures, using temporary employees to fill in for staff on long-term leave, or buying copiers or other office equipment. USEAC directors and staff told us that, to make purchases, they currently must use Commerce's procurement approval process. They characterized this process as being very lengthy and time-consuming, due largely to paperwork requirements and multiple layers of review. USEAC staff told us that they saw

themselves devoting too much time to these purchases, which often were made long after the need arose.

With regard to the need for a USEAC-wide accounting system, USEAC directors told us that they could not identify the costs associated with creating and maintaining the USEACs and allocate these costs among the three participating agencies. They told us that, if they had an adequate system, they could also better assess the relative cost-effectiveness of various tools used by USEACs to reach and deliver export services to U.S. firms. For example, USEAC directors may use a variety of ways to market their services, including mailings to exporters, participation in trade events and export shows, and/or through making cold telephone calls to exporters. Knowing the relative cost of these activities, as well as the results, would help in determining which of these (either singly or in combination) is most cost-effective. Currently the USEACs do not have such information.

Further, we learned that under memorandums of understanding negotiated by the three agencies, Commerce's International Trade Administration (ITA) was to cover all USEAC-related expenditures, allocate them among the participating agencies, and seek reimbursement. Eximbank and SBA officials told us that Commerce had been unable to allocate USEAC-related costs among the three agencies and, as a result, had not provided

them with an adequate accounting of USEAC costs.⁶ Instead, ITA forwarded invoices for "USEAC expenses" that lacked detail. Commerce, Eximbank, and SBA officials recently told us that they have agreed to allocate expenses based on a formula that reflects the limited capabilities of ITA's financial accounting system. This agreement is to be reflected in a revised memorandum of understanding, which has not yet been signed by all USEAC agencies.

To obtain whatever financial data might be available on the USEAC network, we asked the three agencies to compile information on their USEAC-related expenditures. Commerce sought to get the information requested from the individual USEACs, who themselves had no common accounting mechanism to track costs. The Eximbank and SBA relied on centralized financial management systems for the requested information. The data Commerce officials provided to us was heavily qualified and could not be reconciled with Eximbank and SBA data. Therefore, the actual cost of creating and maintaining the USEAC network was not known.

⁶Work performed by Commerce's Office of the Inspector General and our office regarding ITA's overall ability to manage its finances found that ITA lacked the financial management system needed to accurately account for its expenditures. See Semiannual Report to the Congress, U.S. Department of Commerce, Office of the Inspector General (Washington, D.C.: U.S. Government Printing Office, Mar. 31, 1994). Our office communicated its findings to Commerce in a letter dated August 11, 1995.

The agencies recently told us that they are currently piloting a separate financial management system for the USEACs. They anticipate that this system will provide a more precise accounting of expenditures.

RECOMMENDATIONS

Based on our review, we recommend that the Secretary of Commerce, working with the Chairman of the Eximbank and the Administrator of SBA

- give all USEAC directors the authority to contribute to the performance appraisals of all USEAC staff with regard to intra-USEAC cooperation and teamwork (including development of an appropriate performance factor for staff appraisals and performance measures),
- establish a USEAC-specific customer tracking system that contains information on clients and services provided to them, and
- set up an accounting system that accurately tracks the full costs of creating and operating the USEAC network and, as part of that process, incorporate ways to give USEAC directors greater authority over USEAC expenditures.

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Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or other Members of the Subcommittee may have.

APPENDIX

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SCOPE AND RESULTS OF U.S. EXPORT ASSISTANCE CENTER
STAFF AND CUSTOMER SURVEYS

During our week-long visits to each of the four pilot USEACs (in Baltimore, Chicago, Long Beach, and Miami) in May-June 1995, we administered two survey instruments. One survey sought the views of USEAC staff and focused on various operational issues such as cooperation among USEAC agency staff (as well as with nonfederal partners) and the quality of services delivered. The other survey sought the views of USEAC customers and focused on a number of dimensions of program delivery such as access to export services, USEAC staff knowledge, and the timeliness and usefulness of the USEAC services obtained.

SURVEY OF USEAC STAFF

We surveyed and interviewed the USEAC directors and every member of the staff that was available during the time of our visit. Individuals to be surveyed were determined jointly by the USEAC directors and our staff. The surveys were completed anonymously. In all, we received 44 replies, which represented a response rate of about 85 percent. Highlights of our survey results follow.

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- The overwhelming majority of USEAC staff believed that the establishment of the USEAC had increased cooperation among the USEAC agencies (82 percent "to a great/very great extent") and substantially increased customer access to federal export promotion services (80 percent). With respect to other factors, USEAC staff believed the USEACs had (1) improved the quality of services they personally deliver (63 percent), (2) increased export-ready customers' ability to export (58 percent), and (3) improved cooperation with nonfederal partners (50 percent).

- USEAC staff rated their USEACs on progress toward integrating operations across several dimensions using a 10-point scale (with a score of 10 representing complete integration). They gave referrals an average integration score of 7.0 (out of a possible 10). Other dimensions were given a lower score, such as administrative resources (an average score of 4.5) and customer tracking systems (an average score of 4.2).

- Overall, USEAC staff gave high satisfaction ratings (e.g., "very" or "somewhat" satisfied) for various factors, including responsiveness of agencies to each others' referrals (97 percent), accessibility of other USEAC agencies (93 percent), and quality of referrals from other

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USEAC agencies (85 percent). The officials were less satisfied with such factors as information-sharing with nonfederal partners (66 percent), the relationship between USEAC agency officials and the agency officials at local regional offices (56 percent), and the recognition they received for their efforts at promoting the USEACs (37 percent).

SURVEY OF USEAC CUSTOMERS

In surveying the USEAC customers, we asked the USEAC directors to identify their 60 "best customers" (15 from each USEAC) who had received services from more than one USEAC agency. We surveyed all 15 clients at each USEAC and selected 5 clients to interview, based largely on availability and proximity to the USEAC. We received 40 survey responses (13 customers of the Baltimore USEAC, 11 from Chicago, 8 from Long Beach, and 8 from Miami) for a response rate of 67 percent. Of the 40 survey respondents, 12 indicated that they had not received a service from a second USEAC agency.¹ Highlights of our survey results follow.

¹Our interviews discovered that several of the 12 customers who recalled receiving services from only one USEAC agency, in fact, had limited contact with another USEAC agency. However, because of the brevity of that contact, customers did not believe they had received a service from the second agency.

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- The customers who replied to our survey expressed high levels of satisfaction with the individual agencies from which they had received services. For example, 83 to 93 percent of the respondents were satisfied or very satisfied with the timeliness, staff knowledge, and usefulness of the services provided by the first USEAC agency. Of the 28 customers who acknowledged receiving services from a second USEAC agency, 17 received services from the second agency as a result of the USEAC contact, and 12 of these stated that they had received useful services from more than one government agency.

- Customers gave the USEAC agencies high marks (92 percent generally high to very high) for projecting a business image and for providing follow-up. The USEAC agencies did not receive as high a mark for promoting their services (75 percent).

- Customer responses regarding USEAC agency referrals to another USEAC agency showed that referrals were not always made when services were desired. Of those customers who acknowledged receiving services from more than one USEAC agency, about 40 percent said that they had learned about the second agency themselves or through a non-USEAC source and had initiated the contact.

APPENDIX

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U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

STATEMENT OF MARY N. JOYCE
SENIOR INTERNATIONAL TRADE AND FINANCE SPECIALIST
U.S. SMALL BUSINESS ADMINISTRATION
U.S. EXPORT ASSISTANCE CENTER

JULY 25, 1996

BEFORE THE
SUBCOMMITTEE ON PROCUREMENT, EXPORTS, AND BUSINESS OPPORTUNITIES
COMMITTEE ON SMALL BUSINESS

Mr. Chairman, my name is Mary Joyce. I am the U.S. Small Business Administration's (SBA) Senior Trade and Finance Specialist at the Chicago U.S. Export Assistance Center (USEAC). Thank you for inviting me today to describe SBA's role in providing trade assistance to the small business community through the U.S. Export Assistance Centers.

SBA's Role in the U.S. Export Assistance Centers

SBA is a full partner in the U.S. Export Assistance Centers and is meeting its commitment to the initiative by placing full-time representatives at all 15 "Hub" USEACs nationwide. All USEACs have regional responsibilities. For example, in Chicago, where SBA has been a participant since January 1994, SBA staff serve small businesses from Illinois, Indiana, Minnesota and Wisconsin. SBA works with the U.S. and Foreign Commercial Service (Commercial Service) of the Department of Commerce and the U.S. Export-Import Bank (Ex-Im Bank) to offer a full array of services to small business exporters. SBA works closely with these agencies to help small businesses identify markets abroad and obtain the trade financing they need to ensure that their export sales are completed.

The success of SBA and its partners at the USEAC is possible because of our ability to provide joint counseling and financing

to our customers. Staff members from SBA, the Commercial Service and Ex-Im Bank work closely to provide U.S. companies with export marketing and trade finance/credit insurance assistance from a convenient "one-stop" location. The USEAC staff understands that exporting is a process that includes identifying potential markets, obtaining information on how to do business in target markets, identifying promotional events that provide best market opportunities, identifying agents and distributors and obtaining export financing.

The entire USEAC staff is cross-trained in each of the three agencies' programs, enabling us to offer a broad range of Federal export promotion and finance services. Depending on the needs of the business, USEAC staff can provide joint counseling either in the USEAC offices or at the business site. As a result, the USEAC is able to serve the customer more efficiently with "seamless" delivery of export finance and marketing services.

As with most of the USEACs, an important partner in SBA's efforts to help small businesses export are Small Business Development Centers, particularly those with international centers. In Illinois, we have five International Trade Centers (ITC) that are part of the Small Business Development Center network throughout the state that support us by providing one-on-one counseling and technical assistance to businesses that are potential or current exporters. We have worked extensively with

the ITCs, as well as the small business and banking communities, to make them aware of SBA's Export Working Capital loan guarantee program, which is SBA's primary financing tool in the USEACs. Because the ITCs are located throughout the state, they often are the first place a small business visits to obtain export assistance. The ITCs can then determine whether the business needs the more extensive Federal financial and technical assistance that the USEAC offer.

SBA Meets the Needs of U.S. Small Business Exporters Through the Export Working Capital Program

Study after study has shown that the single greatest obstacle for small business exporters is their inability to obtain financing. At the USEAC, SBA and Ex-Im Bank are working hard to coordinate and integrate their efforts to deliver federal export finance assistance. In October 1994, SBA initiated the Export Working Capital program. Under this program, which was harmonized with the working capital program offered by Ex-Im Bank, SBA guarantees repayment to banks who finance export transactions less than \$750,000. As part of the harmonization agreement, Ex-Im Bank guarantees loans over \$750,000.

I would like to take this opportunity to thank you, Chairman Manzullo, as well as the full committee, for the recent support you showed by amending SBA's authorization bill, H.R. 3719, to

restore the 90% guarantee percentage. Restoring the 90 percent guarantee implements a recommendation of the 1995 White House Conference on Small Business and ensures that small business exporters enjoy the same advantages as their large business counterparts.

The hallmark of SBA's service is its local presence. At the USEAC, SBA personnel work one-on-one with small businesses to 1) help them properly structure their export sales so they get paid, and 2) if necessary, compile the kind of information they need to apply for bank financing. Unlike other SBA programs where the financial institution prepares and negotiates credit packages, a key function of the SBA staff in the USEAC is to prepare and negotiate export loan requests. Our services also include assisting small businesses to find lenders willing to finance their international transactions. In some cases, we offer the small business a "Preliminary Commitment" (PC), which is a written commitment from SBA for an Export Working Capital guarantee. PCs help exporters find lenders willing to finance their transactions by indicating "up front" that a loan meets SBA's lending criteria. Without this intensive, one-on-one assistance, many smaller, inexperienced exporters would find it difficult, if not impossible, to arrange financing for their export sales.

We also work closely with banks to make sure they understand the EWCP program and train them on how we structure export deals. Nationwide, SBA conducted 250 lender training seminars on federal export working capital programs. Properly structuring deals can be key to the willingness and ability of a lender to participate in a loan. We facilitate the loan approval process by meeting with the banker and exporter and suggesting the most appropriate method of payment, for example, by using letters of credit to ensure payment. We also help bankers assess country risk to determine the appropriate method of payment.

In most cases, the loan approval process is quick and easy. SBA has made a commitment to process EWCP loans within 10 business days. Because the USEACs have the legal, clerical and other support from our SBA district offices, we often do better than that.

Recent Examples of Successful Joint Activities

1. TEK PAK, INC. -- Batavia, Illinois

Tek Pak has been a customer of SBA's since 1994, the year it received a regular business loan and two EWCP loans from the SBA. Tek Pak, founded in 1992, manufactures precision carrier tape used in the electronics industry to manufacture circuit boards. The company's sales have increased from

\$500 thousand in 1994 to \$1.8 million at the end of 1995. The company projects sales of \$4 million in 1996.

Tek Pak indicated it was interested in expanding its markets to Taiwan and other Asian and European countries. The SBA referred Tek Pak to the Commercial Service, which provided the firm with marketing information and assistance with Commerce's agent/distributor locator service.

2. CITLAND INTERNATIONAL, L.L.C. -- Atlanta, Georgia

Citland International is a wholesaler of mining equipment and other industrial machinery and equipment. This company also acts as an exclusive distributor for several companies including Sears Craftsman tools, Victaulic International, Certain Teed Corporation, Advanced Drainage System, and Gould's Pumps. Citland has been in business since October, 1989, and has grown to employ four people in the United States.

When the company first came to the Atlanta USEAC, it was restricted in its ability to grow with in-house financing only and needed working capital to increase sales and the size of its contracts. Citland International's lender suggested SBA's Export Working Capital Program (EWCP). Trevor King, president of the company states, "The working

capital guarantee has worked extremely well and has allowed us to concentrate on sales without devoting our time to pursuing funding on each contract."

The company now has a \$750,000 EWCP guaranteed loan. Exports account for 100 percent of the company's sales, and the dollar value of those sales has exceeded \$2.2 million in 1995 and is projected to surpass \$3 million this year. Mr. King says, "A lot more companies need to be aware of this program as it is very efficient, came together fast, and allows you to go into the market knowing the financing is there to complete a deal."

After Citland acquired the financing it needed for its export transactions, SBA referred it to the Commercial Service staff at the USEAC for marketing assistance. The Commercial Service worked with the company to help it expand its markets beyond West Africa. As a result of this collaborative USEAC effort, in addition to West Africa, Citland is now exporting to Peru, Bolivia and Mexico.

3. PULSE INSTRUMENTS -- Torrance, California

Pulse Instruments is a woman-owned 22 year-old firm that employs 24 people. Pulse manufactures electronic test equipment for the electro-optics industry. Before the

recent defense cutbacks, Pulse employed over 40 Californians and focused its sales on defense-related products. The company also experienced the foreclosure of its bank by the FDIC in 1994. As a result, when the company came to the Long Beach USEAC for assistance, it was refocusing its strategy towards commercial projects and likewise looking to house their financial accounts with a new bank.

Last year the company generated \$1.85 million worth of export business (total sales hovered around \$3.0 million). This year the company is looking at increasing its export sales to \$2.5 million. Because of its history and export growth, Pulse was named this year's Exporter of the Year by the state of California and the SBA Los Angeles District Office.

The California Export Finance Office (CEFO) financed two of Pulse's transactions -- one to China and one to Saudi Arabia. However, recent underwriting changes at CEFO prevented them from continuing to meet the company's finance needs. As a partner of CEFO, SBA was able to step in and approve a loan guarantee to Pulse Instruments for \$250,000 enabling it to continue and expand its export operations. The company also has been assisted in expanding its markets by the Commercial Service at the Long Beach USEAC.

Mr. Chairman, these examples demonstrate that the United States Export Assistance Centers provide a unique opportunity for the SBA, the Commercial Service and Ex-Im Bank to offer the full range of services small business exporters need to succeed in the international marketplace.

Thank you for allowing me the opportunity to testify today. I would be pleased to answer your questions.

STATEMENT OF
JAMES MORRIS
REGIONAL DIRECTOR
OF THE SOUTHEAST OFFICE
FOR
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON PROCUREMENT, EXPORTS, AND
BUSINESS OPPORTUNITIES
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

July 25, 1996

Mr. Chairman, and Members of the Subcommittee:

I am James Morris, the Regional Director of the Southeast Office for the Export-Import Bank of the United States (Ex-Im Bank). Thank you for the opportunity to discuss what Ex-Im Bank is doing to enhance the effectiveness of the U.S. Export Assistance Centers (USEACs) and to respond to criticisms made in the Inspector General's and General Accounting Office's Reports.

At the outset let me state, in an era of declining budgets Ex-Im Bank is doing everything in its power to stretch our limited resources to enhance the institution's overall effectiveness to U.S. exporters both small and large. Nowhere else can this be more evident than in our efforts to support small business.

Over the last eight years, U.S. exports have contributed to over one-third of U.S. economic growth, with over seven million jobs being related to exports and millions more dependent upon the overall economic activity generated by export trade. In fact, in 1995 alone, U.S. exports of goods and services supported an estimated 11 million domestic jobs. Thus, U.S. exports are playing a crucial role in driving our economy.

Ex-Im Bank's mission is to finance U.S. exports when the private sector cannot or will not provide the necessary financing, or to meet subsidized financing from foreign governments. We take risks the commercial sector will not assume -- primarily in the big emerging markets in the developing world. We provide leadership and guidance in export financing to the U.S. exporting and banking communities and to foreign borrowers. Finally, we actively assist small and medium-sized businesses increase their exports. Exports means jobs, higher-paying jobs and a better standard of living.

Small businesses are the largest segment of the U.S. employment base. Despite this, the majority of U.S. exports still come from larger companies. To tap the growth potential of small business exports, we have strengthened our commitment to small business by improving and enhancing our small business programs and by reaching out through every possible delivery mechanism such as the USEACs and our City/State partners.

It should be remembered that the USEACs were created in record time. While we realize that we have achieved much, we are always looking for opportunities to further improve the

system. In that regard, we view suggestions from GAO and Commerce's Inspector General as we would those from any good management consulting firm--we embrace their helpful suggestions and recommendations.

Some of the suggestions GAO and Commerce's Inspector General made reflect early start-up difficulties and these have already been corrected or are in the process of being corrected.

As in the case in all Ex-Im Bank's operations, we look forward to benefitting from any new recommendations or suggestions you may have including GAO's proposal.

Before commenting further on the specific subject of this hearing-- our participation in the USEAC effort -- I would like to elaborate on Ex-Im Bank's achievements in the area of small business.

Small Business

One of the toughest obstacles a small business exporter can face is finding financing for their product. In an effort to assist in overcoming this difficulty, Ex-Im Bank has made a strong commitment to help small and medium-sized exporters in the international marketplace. This resulted in many improvements and enhancements to the Bank's small business programs, as well as improvements in our program delivery system. While all of Ex-Im Bank's programs are

open to small businesses, the Working Capital Guarantee and Insurance programs are the programs most frequently used by small business exporters since they are ones that have been specifically geared to meet U.S. small business exporter needs.

Ex-Im Bank's Working Capital Guarantee Program was specifically created to assist in pre-export financing. Working capital is critical for a small business to finance the purchase of inventory and raw materials, manufacturing and marketing needed to enter or expand the marketing of their products overseas. Under the program, Ex-Im Bank provides a guarantee of 90% of the principal and interest on loans from acceptable commercial institutions to eligible U.S. exporters. This financing can be used to support a specific transaction or a revolving line of credit.

At the same time, our insurance program provides small exporters with protection against the failure of foreign buyers to pay their credit obligations for either commercial or political reasons, affords them greater ability to offer foreign buyers competitive terms of payment, and lastly, gives small exporters greater borrowing flexibility.

As a result of Ex-Im Bank's continued commitment to small business, we have made a record number of authorizations in support of small business transactions over the last several years.

In FY'95, Ex-Im Bank approved 1,910 transactions for \$2.5 billion involving small businesses, a 21 percent increase over FY'94. These small business authorizations accounted for almost 80 percent of all Ex-Im Bank's volume of transactions and almost 20% of the dollar volume of its financings. Of these small business authorizations, Ex-Im Bank's Working Capital Guarantee authorizations skyrocketed 70% to \$306 million and the number of insurance transactions, of which more than 80 percent are for small businesses, rose 17%.

But, despite this record support, we are continuing to press forward to optimize our support for small business. In fact, in just the last nine months of this fiscal year, we have approved \$230 million in financing under our Working Capital Guarantee Program, which was up 27 percent from \$182 million for the same period a year ago. Moreover, we have every expectation that authorizations in FY'96 could reach \$360 million.

The majority of this increased activity in FY'96 is attributed to delegated authority, a program for qualified banks around the country to pre-approve Ex-Im Bank guarantees for qualifying customers. Financings through Delegated Authority Lenders totalled \$123 million, accounting for more than half of all Working Capital Guarantee financing. In addition, it was an 153% increase over the \$47 million Ex-Im Bank did a year earlier.

This increased utilization is not only the result of improvements and enhancements to our small business programs; but there have also been increased efforts to expand our delivery

system through the U.S. Export Assistance Centers or "one-stop shops" that integrate the representatives and assistance of U.S. & F.C.S., SBA and Ex-Im Bank as well as our City/State partners that bring Ex-Im Bank financing to small and medium-sized companies through partnerships with state and local organizations.

USEACS Network

Ex-Im Bank firmly supports this Administration's National Export Strategy and the U.S. Export Assistance Centers (USEACS) since trade finance is a critical missing element to many small businesses. These centers provide the Bank with another delivery mechanism for our programs.

However, it is important to note that when GAO made the original proposal to establish "one-stop shops" Ex-Im Bank had no field offices and the original proposal did not envision Ex-Im Bank's presence in the one-stop shops. The one-stop shops were to be formed out of existing staff from the field offices staff of the Department of Commerce (DOC) and the Small Business Administration (SBA). DOC personnel were to provide the technical assistance in exporting and the SBA field offices were to be fully trained in Ex-Im Bank's finance program so that they could provide assistance in our financing programs as well as SBA's Export Working Capital Guarantee Program. It was not until Ex-Im Bank made the decision to bring in the Foreign Credit Insurance Agency (FCIA) field offices that Ex-Im Bank inherited a small field office

structure. It is with the commitment of the resources of this small field structure that Ex-Im Bank was able to commit a full-time presence in four of the USEACs. In the interest of making efficient use of taxpayer resources, Ex-Im Bank continues to believe that the most efficient way to represent Ex-Im Bank's programs in the other USEACs is not to duplicate a large field structure that is already in existence in the other agencies; but, to make enhanced use of DOC trade representatives, SBA's loan officers and Ex-Im Bank's City/State partners.

Under the Pilot program, Ex-Im Bank co-located staff in two of the original four sites. They were Miami and Chicago. The other two original sites were Baltimore and Long Beach. In Baltimore, we utilized our City/State partner as a delivery mechanism and in Long Beach we utilized staff from our former El Segundo, California office.

Under the pilot program, site director responsibilities were spread among the three participating agencies. DOC took Baltimore and Miami, Ex-Im Bank took Chicago and SBA took Long Beach. Ex-Im Bank co-located staff in the Miami and Chicago USEACs when they opened, and our City/State partner covered Baltimore with help from our New York Office. For the Long Beach USEAC site, Ex-Im Bank sent staff from our Los Angeles, California office to Long Beach several days a week and in August, when our lease expired in our former LA offices in El Segundo, we moved our staff into the Long Beach USEAC.

Since the Pilot program was such a success, Phase I of the program was undertaken. This involved expanding the USEAC program to another eleven locations. These were: Atlanta,

Boston, Cleveland, Dallas, Denver, Detroit, New Orleans, New York City, Philadelphia, Seattle, and St. Louis. All of these sites were opened in calendar 1995, except Detroit which will be opening today.

In Phase I, ten of the eleven USEAC locations are covered by one of our City/State partners, who are fully trained in the Bank's programs. In fact, our City/State applicants are required to have full-time professionals trained in our programs, and present an acceptable annual budget and marketing plan that evidences their commitment to trade finance. The only exception was Denver. When the Denver USEAC office opened, we sent in our staff do a needs assessment. At that time, we decided that we could cover the office with regular visits, and ad hoc visits if the customer needed a visit before the next regularly scheduled visit and phone/fax support as needed. We have been fortunate to have an excellent SBA officer on site, who has made it his business to learn a good deal about our programs to support his customers. Therefore, we are currently handling the Denver USEAC with our California staff visiting on a regular basis. In the meantime, we are working on getting a City/State participant in Colorado. Therefore, all but one of the first 15 USEACs either have a full-time Ex-Im Bank presence or a qualified City/State participant providing support.

Under the current USEAC expansion plan (Phase II), two more Regional USEACs have been announced and additional sites are expected. These are Charlotte, North Carolina and San Jose, California. Ex-Im Bank has City/State partners to cover San Jose, California. We are presently working on getting new City/State participants for Charlotte, North Carolina. If we are

unable to get them at present, we will handle them the same way we did Denver, namely sending Ex-Im Bank staff in for the first few weeks to perform a needs assessment and then agree with the USEAC staff on a reasonable schedule of regular visits. The two site directors will be from the Department of Commerce.

During FY'95, Ex-Im Bank has authorized support for over \$284 million of City/State transactions. Most of these transactions involved the Working Capital Guarantee and insurance programs; however, some involved medium-term business. Although the top five City/State partners provided about \$185 million, almost all of the other 22 partners did something. We have found that the main activity determinant is whether or not the entities have a clear export focus rather than a foreign investment focus.

I would now like to give you some specific examples of positive results from our USEAC's cooperative effort. SBA and Ex-Im Bank personnel from the New York USEAC paid a joint visit to Medical Systems Inc. of Greenvale, New York, which refurbishes medical equipment and sells it overseas to third world countries. As a result, Medical Systems Inc. obtained a \$400,000 SBA working capital guarantee with Ex-Im Bank export credit insurance which enabled the company to do an additional \$800,000 to \$1,000,000 worth of export orders.

Univac Corporation of Garden City, New York is another company which benefitted from this interagency cooperation. Univac Corporation is a small start up medical supply manufacturer that was introduced to Ex-Im Bank by the USEAC regional personnel of a District

Export Assistance Center in Long Island. This company manufactures disposable syringes that are to be marketed in third world countries. Financing was not the only help the U.S. Government provided, marketing assistance was provided as well. DOC personnel spent a great deal of time with the owners of the company marketing the product at the United Nations and its relief agencies. After a market was developed for the product, Ex-Im Bank approved a \$900,000 working capital guarantee following meetings with banks and the exporter. This allowed the company to respond to over \$2,500,000 worth of pending export orders.

Mid-America Engineers of Chicago, Illinois received assistance from both the DOC and Ex-Im Bank from the Chicago USEAC office. DOC provided marketing information to Mid-America on their foreign turnkey oil plant systems and Ex-Im Bank financed a \$1,000,000 working capital guarantee to support the company's performance guarantee requirements. This joint effort resulted in new export contracts for Mid-America in China, India and Argentina. The new export business will enable the company to double its sales in 1996.

ATM America of Morton Grove, Illinois is another company that was assisted by our Chicago USEAC. ATM is a small manufacturer of cleaning components that first established contact with the SBA office in January 1996. Since that initial meeting, ATM has received assistance from all three agencies of the USEAC. SBA is providing them with a \$250,000 working capital guarantee, Ex-Im Bank has approved a Small Business Export Credit Insurance

Policy for the company and the DOC is working on an agent/distributor study for the emerging markets of the Middle East and Latin America.

In addition, Ex-Im Bank is also participating in Seminars and Conferences organized by the USEACs. In April, May, and June, export finance seminars for small businesses and lenders were done in Minneapolis, Minnesota; Milwaukee, Wisconsin; and Chicago, Illinois with the SBA of Chicago and the DOC of the respective cities. Also, in April, Ex-Im Bank participated in a conference planned and sponsored by the Chicago USEAC on the big emerging markets.

Although, Ex-Im Bank had responsibility for the Chicago USEAC director site, DOC will be assuming the responsibility for that office since our director's recent departure. This means that the Long Beach, California USEAC office will be the only site without a DOC employee at the head.

To date, we have had no complaints regarding the operations of USEACs and we believe that through these two delivery mechanisms we can handle demand. Ex-Im Bank believes that as a result of closer cooperation by more integration of the agencies, this network will reach its expected and full potential.

Finally, Ex-Im Bank recently made changes to our City/State program that compensate our City/State participants for their assistance to exporters utilizing our programs. This compensation will provide anywhere from a \$500 finders and referral fee to \$2,500 for the

processing and writing up of any transaction that results in a final approval by the Bank. The amount of compensation depends on how much is done by the participant and the size of the deal and what is done. To date, we have not compensated any participant. This is a new policy and it usually takes time for the Bank and borrower to complete the process. However, we expect this new policy to have a positive impact on the number of participants and their commitment to our programs. These City/State entities are Ex-Im Bank's participants and SBA does not contribute to their costs.

The Inspector General's report also stated concern over the possibility of a conflict, if an exporter in one state is referred to a Regional office in another state. The example provided was an exporter in Richmond is referred to the Regional center in Baltimore where support is provided by the Maryland Industrial Finance Authority (MIDFA), whose mission is to increase business from the port of Baltimore. Under this scenario, the exporter would be sent to our City/State partner the Virginia Small Business Finance Authority in Richmond.

Conclusion

Increased exports, from all companies whether they are small or large, will strengthen our economy and our international competitiveness. They are key to our economic growth, health and well-being through better high-paying jobs and standard of living. Small and medium-sized business exports are a crucial element of this equation for they represent the largest base of U.S. employment and are responsible for an increasingly larger share of U.S. exports. But, the largest

obstacles these companies face are lack of awareness of and access to government financing programs. To overcome these obstacles, Ex-Im Bank has revised our small business programs to service this sector better and attract a broader spectrum of lenders into the market. In addition, we are continuing to expand our delivery mechanism through the USEACS and our City, State partners.

We have every expectation that through these two ambitious delivery systems Ex-Im Bank will be able to reach many more small and medium-sized companies than we would have been able to with our limited staff.

Furthermore, any program when it is first initiated is expected to have some kinks. It's an evolving process. Over the last year, all of the agencies have been working together to address the Inspector General's and GAO's concerns with the program. As a result, there has been greater inter-agency cooperation and integration of the USECAs with the expectation that these entities will achieve what is envisioned -- a better delivery service to small and medium-sized businesses to realize export success.

DONALD A. MANZULLO
CHAIRMAN

EVA CLAYTON, NORTH CAROLINA
RANKING MINORITY MEMBER

Congress of the United States

House of Representatives

104th Congress

Committee on Small Business

Subcommittee on Procurement, Exports, and Business Opportunities

B-101 Rayburn House Office Building

Washington, DC 20515

August 19, 1996

The Honorable Lauri J. Fitz-Pegado
Assistant Secretary and Director General
U.S. and Foreign Commercial Service
International Trade Administration
Department of Commerce
14th Street and Constitution Avenue, N.W.
Washington, D.C. 20230

Dear Lauri:

Thank you for taking the time out of your busy schedule to give the Subcommittee a progress report on the roll out of U.S. Export Assistance Centers (USEACs). Again, I want to commend you and the Trade Promotion Coordinating Committee (TPCC) on your work in moving the direction of the delivery of federal export assistance programs toward a more seamless web. As everyone at the hearing recognized, service to our nation's exporters has been enhanced.

In response to your August 2, 1996 letter, I respectfully ask the following questions for you to answer in writing, which will be submitted for the record.

1) You testified both in your written and oral statement that, basically, the three main recommendations of the General Accounting Office (GAO) and the Commerce Department's Inspector General's (IG) audits are being implemented.

a) Regarding staff performance appraisals, you testified that USEAC directors will provide at least 15 percent of a USEAC staff's performance rating, regardless of agency affiliation, beginning in FY 1997 involving eight USEACs. When was the decision reached to implement this recommended change? The Subcommittee wishes to receive a copy of the document which records this understanding that was reached among the agencies to implement this recommendation. How does the fact that now all but one of the 15 USEACs are headed by Commerce Department personnel affect these staff performance evaluations? When do you anticipate that all USEACs will be able to participate at this level of staff performance appraisals?

b) Regarding a unified customer tracking system, you testified that the USEACs will begin to use Lotus Notes, as opposed to the Goldmine system, involving five USEACs by the end of 1996. When was this decision reached to use Lotus Notes? The Subcommittee wishes to receive a copy of the document which records this understanding that was reached among the agencies to implement this recommendation. What were the drawbacks of the Goldmine system? How do you anticipate that using Lotus Notes will resolve the problems that were uncovered by the pilot test of the Goldmine system? When do you anticipate that the Lotus Notes system will be in place and fully operational among all the USEACs? What is staff in the other 10 USEACs using in the meantime?

c) Regarding the USEAC expenditure tracking system, you testified that there is a new, revised Memorandum of Understanding (MOU), which was signed among the three agencies to move to a flat fee system of reimbursement. When was this decision reached to go to this system? The Subcommittee wishes to receive a copy of this MOU. Knowing that your statement admits Commerce's accounting system presents 'difficulties' and that 14 of the 15 USEACs are headed by Commerce personnel, will this flat fee system of reimbursement be able to successfully interact with Commerce's current system?

2) The original plan, as outlined in the 1993 TPCC report, called for establishing four pilot USEACs based on one of three models. One of those pilot projects, titled "Model C," planned to shift the approach of the USEAC during a three year period from one of providing direct client services ("retailing") to one providing strictly indirect services ("wholesaling") via local trade intermediary organizations. Each of these pilot one-stop shops for export promotion and trade finance services would be subject to a rigorous evaluation at least once every three months, selecting the best features and using the lessons learned to improve the design and establishment of future USEACs. Both the GAO and the IG of Commerce testified that the USEAC concept was not fully evaluated before the network was expanded. In fact, the IG report claimed that the "hub and spoke" sites were identified using older data from the 1987 Economic Census.

a) Has the US&FCS updated its identification of potential USEAC ("hub") and District Export Assistance Center ("spoke") sites based on more current economic data?

b) Were the original plans to fully evaluate the USEAC's abandoned? If yes, why? If not, why do you believe so?

c) If you did fully evaluate the USEACs, what were the results of your assessment of "Model C?" Please submit that document to the Subcommittee.

3) You testified that the U.S. & Foreign Commercial Service (US&FCS) increased its export actions, which is defined as export sales that your clients attribute to the assistance your agency provides, by 80 percent at a time when staff allocations within USEACs were cut by 20 percent.

a) The claim of a 20 percent reduction in staff allocations is not clear. According to the President's FY 1996 and 1997 budget requests, the US&FCS employed 2,336 Full-Time Equivalents (FTEs) employees in 1994, 2,328 in 1995, 2,330 in 1996 and 2,376 are requested for 1997. These figures imply a two-year freeze and a request for a two percent increase in the actual number of US&FCS employees next year. Was there a real 20 percent reduction (not staff allocation slots hoping to be filled sometime in the future) in the number of personnel or FTEs at the US&FCS since 1994?

1. If no, was the foreign side of the US&FCS expanded at the expense of the domestic field offices? If that is the case, please explain the rational for the decision.

2. If yes, please expand upon what you meant by a 20 percent staff allocation reduction.

b) Your statement attributed the increase in export activity to the USEAC network. Please explain to the Subcommittee how it was determined that such increases were due solely to the creation of the USEAC network and not the result of other factors. In other words, is it possible that part of this increase might have resulted from a more concerted effort to gather such data (i.e., were Quality Assurance Surveys sent out prior to 1994 asking similar questions to every exporter served?), increased export action goals, and/or domestic offices not meeting their full potential in the past?

Thank you for taking the time to answer these questions for the record.

Sincerely,



Donald A. Manzullo
Chairman



UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, DC 20230

DIRECTOR GENERAL OF THE U.S. AND
FOREIGN COMMERCIAL SERVICE

September 19, 1996

The Honorable Donald A. Manzullo
Chairman, Subcommittee on Procurement, Exports
and Business Opportunities
Committee on Small Business
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I want to thank you for giving me the opportunity to elaborate further on the testimony I presented before the Subcommittee in July. I hope that the enclosed information answers your remaining questions about the progress we have made on the U.S. Export Assistance Center initiative and the positive impact that this program has had on our service to the business community. I appreciate your ongoing interest in our efforts and welcome any further questions that you or the Subcommittee might have.

On a related note, I want to thank you for your recent "Dear Colleague" letter supporting the role we play in supporting the export efforts of small business. I am encouraged that, under your leadership and that of your Subcommittee, the Commercial Service and our partners in the International Trade Administration and in the other federal export promotion agencies will continue to improve our assistance to that vital part of the American business community.

Sincerely,



Lauri J. Fitz-Pegado

Enclosure



**RESPONSE OF THE COMMERCIAL SERVICE TO THE
SUBCOMMITTEE ON PROCUREMENT, EXPORTS, AND BUSINESS
OPPORTUNITIES OF THE HOUSE COMMITTEE ON SMALL BUSINESS
REGARDING THE U.S. EXPORT ASSISTANCE CENTERS**

Below are the questions contained in a letter dated August 19, 1996, to Lauri J. Fitz-Pegado, Assistant Secretary and Director General of the Commercial Service, from the Subcommittee on Procurement, Exports, and Business Opportunities of the House Committee on Small Business in and the responses to those questions.

1) You testified both in your written and oral statement that, basically, the three recommendations of the General Accounting Office (GAO) and the Commerce Department's Inspector General's (IG) audits are being implemented.

a) Regarding staff performance appraisal, you testified that USEAC directors will provide at least 15 percent of a USEAC staff's performance rating, regardless of agency affiliation, beginning in FY 1997 involving eight USEACs. When was the decision reached to implement this recommended change? The Subcommittee wishes to receive a copy of the document which records this understanding that was reached among the agencies to implement this recommendation. How does the fact that now all but one of the 15 USEACs are headed by Commerce Department personnel affect these staff performance evaluations? When do you anticipate that all USEACs will be able to participate at this level of staff performance appraisals?

USEAC Directors expressed their need to help evaluate all USEAC staff, regardless of agency affiliation, at the USEAC Site Directors meetings in November 1995 and June 1996. The Commercial Service (CS) and Small Business Administration (SBA) headquarters staff subsequently discussed the subject informally and, shortly before the July 25 testimony to the Small Business Subcommittee on Procurement, Exports, and Business Opportunities, senior managers orally agreed to allow USEAC directors a minimum of 15% input into Commercial Service Staff and SBA USEAC staff's evaluations, with the intent to invite the Export Import Bank (ExIm) to participate. With less than 120 days¹ left in the FY 96 performance cycle, we deferred implementation of the inter-agency performance evaluation until FY 97. We are now entering the planning stage for the FY 97 performance cycle and expect to formalize the new procedures for all USEACs by September 30, 1996.

In FY 97, the Commercial Service will implement an upward feedback evaluation instrument with a pilot group of eight CS USEAC directors. (A copy of the draft FY 97 proposal is attached.) This instrument, still in development, will allow all USEAC staff -- including

¹Revisions to performance plans must be implemented a minimum of 120 days before the end of a performance cycle.

federal partners -- to help evaluate their USEAC director. We will finalize the proposal within the next one to two months, at which point we will circulate it to SBA and ExIm to encourage their involvement. (The proposal has already been informally discussed with SBA and met with a favorable response.) The initial upward feedback pilot will serve as a learning tool for the evaluatees, but not as an evaluation tool. If the pilot proves successful, we expect to expand upward and/or 360 degree feedback (superiors, subordinates, partners, peers, and clients contribute to the evaluation process) to other Commercial Service employees in FY 98 and to incorporate it in the evaluation process.

Essentially, in the fourteen USEACs where Commerce is the lead agency, upward feedback would establish a "two-way street" of communication -- i.e., USEAC directors would provide 15% of all USEAC staff's performance ratings, but all USEAC staff members would also provide input into their director's evaluation. The Commercial Service believes that ongoing two-way communication will help balance the perceived inequities at sites where Commerce takes the lead. At the same time, upward feedback will encourage the USEAC staff to act as a cohesive team for the benefit of U.S. exporters.

Until these new evaluation procedures take effect, the Commercial Service, SBA and ExIm continue to evaluate USEAC staff on their contribution to the USEAC partnership. (A copy of the standard CS USEAC trade specialist performance plan is included in this package.)

b) Regarding a unified customer tracking system, you testified that the USEACs will begin to use Lotus Notes, as opposed to the Goldmine system, involving five USEACs by the end of 1996. When was this decision reached to use Lotus Notes? The Subcommittee wishes to receive a copy of the document which records this understanding that was reached among the agencies to implement this recommendation. What were the drawbacks of the Goldmine system? How do you anticipate that using Lotus Notes will resolve the problems that were uncovered by the pilot test of the Goldmine system? When do you anticipate that the Lotus Notes system will be in place and fully operational among all the USEACs? What is staff in the other 10 USEACs using in the meantime?

Choosing a Client-Management System that best meets the needs of the EAC Network

Over the past three years, the Commercial Service has redesigned significantly its domestic field network. The principal concept driving the new Export Assistance Center (EAC) network is to provide the integrated delivery of trade finance and marketing services directly to our clients: U.S. exporters. The 15 inter-agency U.S. Export Assistance Centers (USEAC) throughout the country serve as hubs in a tightly integrated system connecting over 74 Commercial Service District EACs (spokes) nationwide. In turn, the EAC field offices work closely with 139 Commercial Service posts overseas to ensure clients receive the most up-to-date trade information.

In order to offer this up-to-date information, the Commercial Service needed a comprehensive client management system to allow every office worldwide fast and easy access to the complete

history of every Commercial Service client. As noted by both the General Accounting Office (GAO) and the Department of Commerce's Inspector General (IG), the current Clipper-based Client Information Management System (CIMS) no longer meets these needs.

Consequently, the Commercial Service began a detailed study of our client management requirements in order to better communicate those needs to USEAC partners. In March 1995, Booz Allen & Associates released a comprehensive analysis of Commercial Service worldwide user needs for technology, based on a users focus group and a detailed survey completed by staff worldwide. Booz Allen recommended implementing groupware for client management purposes and for time-saving features such as integrated e-mail and Winfax capabilities -- groupware such as Lotus Notes.

In August 1995, the Commercial Service's Environmental Technologies Team began an in-depth pilot of the off-the-shelf system recommended by ExIm Bank at the time -- Goldmine. The pilot began with ten CS field staff members as well SBA headquarters involvement and SBA participants from the Cleveland and Seattle USEACs (current involvement includes 8 field staff and the SBA staff in the Cleveland USEAC). Although the ongoing Pilot has helped the Commercial Service determine what client data is best to include in a client management system, preliminary results indicated this system did not meet fully the Commercial Service's extensive client tracking and sharing needs, particularly in light of the global nature of the organization. Recent conversations with ExIm Bank staff indicate they have also abandoned Goldmine.

Specifically, Pilot designers and EAC staff reiterated the need for a fully customizable and searchable system that not only meets our client management requirements but also allows us to create financial tracking, performance tracking, and other applications important to increasing the efficiency and effectiveness of the EAC network -- all capabilities consistent with Lotus Notes. Goldmine only attempts to address the client management needs of an organization. In doing so, the Goldmine database structure lacks flexibility by limiting the amount of information that one can record within each field and restricting the number of fields that can be customized, added and fully indexed and queried. Goldmine also exhibited many compatibility problems with our current word-processing program, Word Perfect, while Lotus Notes is fully compatible.

EAC staff also expressed a need to have access to all EAC client records to provide a comprehensive and integrated response to client needs. Although Goldmine allows for nationwide replication, the process is very time consuming, requiring extensive equipment purchases and complicated procedures even for the Pilot. Implementing Goldmine nationwide would create a number of logistical problems. Lotus Notes, as the innovator of groupware, allows for a relatively easy replication process.

In early 1996, the Office of Domestic Operations conducted its own focus group with ten field staff. Again, the group recommended immediate implementation of Lotus Notes groupware

for its client management needs as well as for administrative and information resource needs.

In the fall of 1996, Ellsworth & Associates contractors conducted another study of Commercial Service user needs and determined a profile for a new client management system. Based on the similar outcomes of all these studies, and its compatibility with other client management systems, the Commercial Service decided in the Spring of 1996 to implement Lotus Notes on a pilot basis at sites in the domestic and overseas fields, as well as headquarters.

Different Systems, Same Information

On several occasions in the past, ExIm Bank and SBA have requested that the Commercial Service take the lead in determining technology choices for the USEACs, since we have the greatest staffing and monetary investment. We have maintained regular communication with both agencies while evaluating our technology needs, involving SBA in our Goldmine pilot and consulting with ExIm Bank on its experiences with Goldmine. Consequently, both agencies were informed in the late spring of 1996 that the Commercial Service would use Lotus Notes as the base for its new client management system.

However, the Commercial Service's experience with Goldmine has indicated the varying user needs possessed by each USEAC agency and that these differing needs might be better met by different client-management software. By selecting Lotus Notes, the Commercial Service chose a system that is compatible with any off-the-shelf client management system, including Goldmine and others under consideration by USEAC partners. Data can be transferred and harmonized among different systems, resulting in common client records although not necessarily within one unique system.

Attached to this response is a copy of a Memorandum of Understanding (MOU) creating a working group among the USEAC agencies to determine what information should be shared with all USEAC staff and resolve any technical problems with replicating the shared information among each agencies client management system. This MOU, a draft of which has been reviewed by SBA and ExIm, has been signed by the Commercial Service and is in the concurrence process for signature by SBA and ExIm. The form the Commercial Service is using to survey USEAC staff on the appropriate commonly shared information is also attached.

Timeline for Implementation

Five USEAC sites will have Lotus Notes by the end of the calendar year and the remaining USEACs will receive Notes by spring 1997. In the meantime, USEAC staff will continue to use the current Clipper-based CIMS system. The Commercial Service is currently developing a process to transfer Clipper-based CIMS files to the Notes-based client management system.

c) Regarding the USEAC expenditure tracking system, you testified that there is a new Memorandum of Understanding (MOU), which was signed among the three agencies to move to a flat fee system of reimbursement. When was this decision reached to go to this system? The Subcommittee wishes to receive a copy of this MOU. Knowing that your statement admits Commerce's accounting system presents "difficulties" and that 14 of the 15 USEACs are headed by Commerce personnel, will this flat fee system of reimbursement be able to successfully interact with Commerce's current system?

The inter-agency working group on Finance & Administration attempted, from the beginning, to develop coding patterns that would accurately track USEAC expenditures within Commerce's existing accounting system. Unfortunately, the limitations of that system, combined with the complex cost sharing methodology established by the original Memorandum of Understanding, quickly made the tracking process unmanageable. In response, we opted to move to a flat fee system of reimbursement, which we incorporated into a revised MOU (attached). In November of 1995, Commerce reached a general agreement in principle with SBA and ExIm to move to a flat fee system of reimbursement. We also began to develop a Lotus Notes-based Financial Information system which allows immediate access to the reporting of official International Trade Administration accounting transactions. This enables the sharing of official data throughout our network and with resident partner managers and financial officials. This new Notes-based system, which is housed in our regional offices, has been operational for the past six months. Real-time access to this information eliminates the highly labor-intensive accounts reconciliation process.

2) The original plan, as outlined in the 1993 TPCC report, called for establishing four pilot USEACs based on one of three models. One of these pilot projects, titled "Model C," planned to shift the approach of the USEAC during a three year period from one of providing direct client services ("retailing") to one providing strictly indirect services ("wholesaling") via local trade intermediary organizations. Each of these pilot one-stop shops for export promotion and trade finance services would be subject to a rigorous evaluation at least once every three months, selecting the best features and using the lessons learned to improve the design and establishment of future USEACs. Both the GAO and the IG of Commerce testified that the USEAC concept was not fully evaluated before the network was expanded. In fact, the IG report claimed that the "hub and spoke" sites were identified using older data from the 1987 Economic Census.

a) Has the US&FCS updated its identification of potential USEAC ("hub") and District Export Assistance Center ("spoke") sites based on more current economic data?

b) Were the original plans to fully evaluate the USEAC's abandoned? If yes, why? If not, why do you believe so?

c) If you did fully evaluate the USEACs, what were the results of your assessment

of "Model C?" Please submit that document to the Subcommittee.

In January 1994, the Commercial Service opened pilot U.S. Export Assistance Centers in Baltimore, Chicago, Long Beach and Miami and, for the first time, brought together representatives from the different trade promotion agencies under one roof. Soon afterwards, the CS began working on the TPCC report's directive to "review other cities throughout the United States to determine the potential for future sites... based on an analysis of state-by-state export data and other measures of current and projected economic activity as well as substantial input from concerned agencies." The TPCC recommended that we "identify 10 new sites by June 1994 and establish them in CY 1995." We also worked to meet the Committee's recommendation that the participating agencies conduct extensive evaluations to "help the TPCC evaluate operational start-up issues, concerns and problems."

While selecting the sites for the next round of Centers, we recognized that the needs of our clients demanded something more fundamental than merely co-locating federal partners in a collection of individual offices. Instead, we set out to create a network that would enable us to bring the consolidated services first envisioned by Congress to the greatest number of American businesses possible. To do so, we created a "hub" and "spoke" system designed to effectively service regional trading areas. With interagency U.S. Export Assistance Centers serving as the hubs and smaller Commercial Service District EACs as spokes, we have expanded significantly our accessibility to the business community. These offices use electronic links and state of the art communications technologies to deliver more services faster to more of our target clients: export-ready firms i.e., those with the commitment and resources to establish or expand export operations.

The EAC program has relied heavily on client input from its inception. The Commercial Services' Office of Domestic Operations (ODO) had the unique advantage of a vast domestic field network of offices all around the country. These offices serve as our direct links to the exporting community and its particular needs. In fact, as we rolled out the first group of new offices after the pilots, we met with local trade promotion organizations, government partners and business communities in each city to determine the optimal structure and location of these offices. In addition, our field offices have always maintained strong partnerships with state and local export promotion organizations; relationships that laid the foundation for increasing the effectiveness of our export assistance services. Whenever possible, we have co-located EACs with other public and private partners (such as World Trade Centers, state development agencies, port authorities) to improve the range and depth of services available at a single site.

With respect to US&FCS updating its "identification of potential USEAC ("hub") and District Export Assistance Center ("spoke") sites based on more current economic data," it would be a counter-productive and time consuming exercise. While we used aggregate export data as one factor in determining general placement of our new offices, the ultimate placement and design of those offices derived from local outreach meetings and local office client concentration data. Selection of office locations was determined by the needs of our target clients, not merely

from aggregate export data. It is important to note that no statistical series is perfect and that there is no substitute for direct contact with the business community. In fact, page 27 of the DOC Inspector General (IG) final report on the USEACs (Inspection Report No. IPE-7130/March 1996) states: "We are not suggesting that US&FCS continually evaluate census data and make corresponding changes to their office locations. Most likely, USEAC hub sites are probably where they should be."

We have always avoided the "cookie cutter approach" to opening EACs -- what works for one office will not necessarily work for another. Consequently, we do not believe that a "perfected EAC" can serve as an easily-replicated model for other locations that are accountable to a different set of client needs. In fact, page 5 of the Commerce IG USEAC report states: "In designing the pilot USEAC sites, the working group *correctly* recognized that no single design for one-stop shops would work nationally...." (emphasis in the original). Waiting to develop "perfected EACs" before opening additional sites would only delay the availability of vitally-needed marketing and trade finance services to companies with high export potential. We feel a better approach is to ensure appropriately selected sites receive the integrated marketing and trade finance services they require, and to continue to share best practices through regular site directors meetings and other means, while empowering each site to tailor these practices to meet the needs of the local exporters.

With regard to evaluation, the 1993 TPCC report lists such things as self-assessments, regular field meetings, and user surveys as part of a "rigorous evaluation process." In the light of this, the USEACs have certainly undergone a rigorous analysis. In December of 1994, the USEAC agencies released an interagency progress review of the pilot USEACs developed during site visits in September 1994. In addition, the General Accounting Office (GAO) and Commerce's Inspector General both evaluated the USEACs over a period of time and released reports with recommendations which we either have implemented or are enacting at present. We have held regular USEAC site director meetings since the pilot sites went into operation. These meetings have provided a forum for all of the USEAC site directors to discuss, among other things, what has worked well and what has not at each director's respective USEAC. The Commercial Service also conducts rigorous internal reviews, known as Management Program Reviews (MPRs), of its field offices, including USEACs, focusing on the programmatic and administrative aspects of each office. To date, We have conducted MPRs for the USEACs in Denver and Boston, and we anticipate that all of the other USEACs will undergo a MPR.

For FY 1995, ODO conducted a national survey on customer satisfaction or "quality assurance survey" (QAS). The survey was designed to (1) measure the quality of service that our International Trade Specialists are providing; (2) determine if we are reaching our target market of small to medium size businesses; and (3) learn which industries are using our services. The FY 95 QAS shows that Commercial Service International Trade Specialists operating in an EAC network environment are helping our target firms with high quality counseling and would be recommended by those firms to other potential clients. More than

92% of the 395 clients who responded to our 1995 QAS were either satisfied or very satisfied with the quality of service they received at our offices.

The USEAC program has evolved beyond the original three "models" A, B, and C. As mentioned above, the USEACs have been designed with customer needs as the first and foremost consideration. Through our contact with clients and the extensive outreach meetings, we have realized that each regional trade community is too diverse and unique for a generalized Washington-produced "model" or "models" to be adequate. As such there is no one definitive document assessing "Model C" or any of the other models. Our evaluation of these models and the development of the USEACs has been more of an evolutionary process, with the needs of the local exporting community always put first.

3) You testified that the U.S. & Foreign Commercial Service (US&FCS) increased its export actions, which is defined as export sales that your clients attribute to the assistance your agency provides, by 80 percent at a time when staff allocations within USEACs were cut by 20 percent.

a) The claim of a 20 percent reduction in staff allocations is not clear. According to the President's FY 1996 and 1997 budget requests, the US&FCS employed 2,336 Full-Time Equivalents (FTEs) employees in 1994, 2,328 in 1995, 2,330 in 1996 and 2,376 are requested for 1997. These figures imply a two-year freeze and a request for a two percent increase in the actual number of US&FCS employees next year. Was there a real 20 percent reduction (not staff allocation slots hoping to be filled sometime in the future) in the number of personnel or FTEs at the US&FCS since 1994?

1. If no, was the foreign side of the US&FCS expanded at the expense of the domestic field offices? If that is the case, please explain the rationale for the decision.

2. If yes, please explain upon what you meant by a 20 percent staff allocation reduction.

The FTE numbers cited by Chairman Manzullo for the US&FCS actually reflect the FTE numbers for all of ITA. The actual numbers for US&FCS were much lower, with ITA-authorized FTE levels of 1,331 in FY 1995 and only 1,227 in FY 1996. An ITA-wide hiring freeze also has restricted our ability to fill positions from outside of the organization, thus leaving us with a mere 1,212 FTE actually filled at the current time.

With regard to staffing in the domestic field, both the FY 95 and FY 96 budgets were based on a total allocation to the domestic network of approximately 345 FTE, of which 225 were to be practicing (as opposed to managing) International Trade Specialists. The Commercial Service's Office of Domestic Operations (ODO) began FY 95 with 201 International Trade

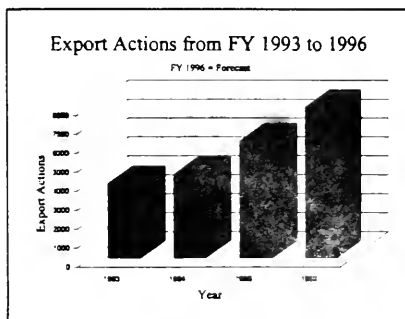
Specialists on board; in November 1995 an ITA-wide hiring freeze was put in place, and subsequent attrition and internal reassignments created additional vacancies which could not be filled. By August of 1995 non-supervisory International Trade Specialists numbered 183--approx. 20% below programmed strength. Overall, the Domestic field as a whole reached a low of 283 (i.e. against the programmed FY 95 base of 349), or approximately 17% below authorization, before the Director-General's efforts to shift resources out of headquarters began to offset the hiring freeze.

b) Your statement attributed the increase in export activity to the USEAC network. Please explain to the Subcommittee how it was determined that such increases were due solely to the creation of the USEAC network and not the result of other factors. In other words, is it possible that part of this increase might have resulted from a more concerted effort to gather such data (i.e., were Quality Assurance Surveys sent out prior to 1994 asking similar questions to every exporter served?), increased export action goals, and/or domestic offices not meeting their full potential in the past?

In FY 94, the Office of Domestic Operations (ODO) realized 4,419 export actions, a 12% increase over the previous year attributed, in part, to increased staffing resources. In FY 95, with a newly redesigned domestic field and a 20% reduction in staffing resources, ODO achieved 6,177 export actions, or a 40% increase over the previous year. In FY 96, ODO has forecast 7,990 export actions, or a 29% increase over the previous year and an 81% increase between 1994 and 1996.

Through the end of the 3rd Quarter of FY 96, ODO has met 71% of its export action goal, despite the six-week government shutdown which disrupted or cancelled a number of key trade events. The 5,644 export actions achieved to date reflect the export successes of 2,347 companies and export sales of more than \$799 million.

We attribute the Office of Domestic Operations' tremendous increase in productivity to a number of factors, all related to the Export Assistance Center redesign and all evidence that the new design is more effective in helping U.S. companies export. For the last two years, ODO has committed considerable resources: to ensure EAC trade specialists receive appropriate training in trade finance and trade marketing and integrate their expertise into every-day counseling; to providing state-of-the-art mobile technology that enables trade specialists to access the most recent trade information and, more importantly, to bring that information to the doorsteps of companies unable to visit the office; to moving offices into areas with high



concentrations of export-ready companies -- as identified by the local business community -- to make services even more available; and to using Export Assistance Centers as a catalyst that not only leverage federal trade promotion resources, but that also create strategic alliances with state, local, and semi-private organizations involved with international trade.

Our proactive, bottom line-oriented philosophy of doing business is the heart of the Export Assistance Center concept. We measure our success by our clients' successes, and we use the most appropriate tools -- whether federal, state, local, or semi-private -- to meet their needs. Before the Export Assistance Center redesign, the organization placed more emphasis on activities -- number of counseling sessions, number of seminars -- than on results. While we have not conducted a formal study to corroborate our findings, it seems clear that our increase in productivity is due to better prepared field professionals working within a better designed organization and guided by a more clearly-defined, client-driven, results-oriented mission. As the EAC concept evolves, with its ongoing focus on client needs and the role we must play to respond, we expect to continue to improve performance.

PERFORMANCE PLAN

(USEAC)

Date:

Rating Period:

Position/Grade: Senior International Trade Specialist GS-1140-13

SSN:

Levels of Ratings: (See attached generic standards):

Excellent (Requires Justification) (O)	Substantially exceeds requirements
Good (Requires Justification) (C)	Exceeds requirements
Satisfactory (FS)	Meets requirements
Needs Improvement (Requires Justification) (NI)	Needs improvement in essential requirements of position
Unsatisfactory (Requires Justification) (U)	Often fails to meet basic requirements

Point Value Assigned

5 Points
4 Points
3 Points
2 Points
1 Point

PERFORMANCE ELEMENTS (Use attached criteria for mid-year and final evaluation)

Weight percentages assigned for Elements 1-5 must add to 100%

SCORE

ELEMENT 1. STRATEGIC SITE PLANNING AND MANAGEMENT: Weight (15%)

Actively assists in developing and advancing personal and office strategic plan and consistently looks for ways to meet them (stresses unusually demanding client population in terms of volume, increasing diversity, critical markets).

Consistently and aggressively develops the wide territory/industry areas assigned and regularly adds new target clients.

Develops joint projects and counseling approaches with USEAC partners and delivers "one-stop-shop" concept to clients.

SCORE FOR ELEMENT: Weight (15%) X Element Numerical Rating () =

ELEMENT 2. CLIENT COUNSELING AND SUPPORT: Weight (45%)

Meets or exceeds high annual target export actions and regularly looks for new ways to improve performance/efficiency (stresses unusually demanding client population in terms of volume, increasing diversity, critical markets).

Drives innovation and initiative to client service and receives high marks for quality service.

Actively and demonstrably works to improve key export counseling skills (see OP Bulletin #92-193).

Reviews individual and office performance to monitor progress against export counseling goals and to find ways to meet goals, and improve performance and productivity.

Counsels clients as outlined and develops and improves counseling skills to stay abreast of current client counseling education needs and the quality of US&FCS services.

Plans and executes effective Joint Counseling efforts with USEAC partners.

SCORE FOR ELEMENT: Weight (45%) X Element Numerical Rating () =

ELEMENT 3. NON-CLIENT TRADE SPECIALIST ACTIVITIES: Weight (15%)

Formulates and develops new initiatives for regional/national pursuit.

Serves as ODO leader for HQ initiatives and/or domestic elements of OIO projects.

Develops productive partnerships with other organizations to establish local EAC and to advance US&FCS objectives.

Engages in Strategic Planning, Trade Finance, Counseling training and other self-development activities consistent with ODO strategic objectives.

Applies training and experience in SBA and other USEAC programs to application to benefit clients.

SCORE FOR ELEMENT: Weight (15%) X Element Numerical Rating () =

ELEMENT 4. TECHNOLOGY APPLICATIONS: Weight (15%)

Applies mobile technology to deliver guidance and information to clients which was previously unavailable.

Develops and proposes expanded technology applications for client benefit and/or to enhance ODO capabilities.

Engages in technology training and other self-development activities consistent with ODO strategic objectives.

SCORE FOR ELEMENT: Weight (15%) X Element Numerical Rating () =

ELEMENT 5. INTERPERSONAL/REPRESENTATION ACTIVITIES: Weight (10%)

Maintains constructive professional relationship with colleagues to advance office goals/morale.

Presents self to public in a professional manner and uses good judgement in challenging situations.

Prepares effective professional reports, plans, briefings and presentations in connection with above activities.

SCORE FOR ELEMENT: Weight (10%) X Element Numerical Rating () =

Partner: _____

3.) _____

Partner: _____

4.) _____

Partner: _____

5.) _____

Partner: _____

OTHER COMMENTS:

Other comments on features you would like to see in a client management system?

Other comments on information that should be shared among USEAC partners?

Thank You.

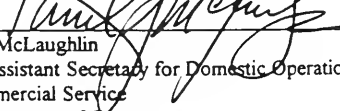
Memorandum of Understanding

The Export-Import Bank of the United States (Ex-Im Bank) and the U S Small Business Administration (SBA) have each been working on the creation of their own comprehensive contact-management systems to meet the needs of each of their organizations. Similarly, the Commercial Service, U S. Department of Commerce has been working on ways to implement major improvements to their own current Clipper-based CIMS client management system

In order to ensure that important contact information can be easily shared among U S Export Assistance Center (USEAC) staff in their efforts to create a truly integrated approach to client needs, the Commercial Service, Ex-Im Bank and SBA have agreed to the following:

Create a working group from each agency's Headquarters technical and non-technical staff to:

- 1) Create and implement a survey to determine what client information SBA, Commerce and Ex-Im Bank USEAC staff and Headquarters staff require in order to be more effective and efficient in identifying and helping clients;
- 2) Use the survey results to determine what common fields USEAC staff need to share in order to effectively integrate their services for USEAC clients;
- 3) Resolve any technical problems that might arise from importing client data among the various client-management software used by each USEAC agency;
- 4) Submit the list of common client management fields and agreed to technical specifications to the below signatories by *Friday, November 15, 1996*.

Signature  Date 9/5/96
 Daniel J. McLaughlin
 Deputy Assistant Secretary for Domestic Operations
 The Commercial Service
 U S Department of Commerce

Signature _____ Date _____
 Eileen Cassidy
 Acting Assistant Administrator
 Office of International Trade
 U S Small Business Administration

Signature _____ Date _____
 Richard Feeney
 Senior Vice President
 Export-Import Bank of the United States

MEMORANDUM OF UNDERSTANDING

THE U.S. DEPARTMENT OF COMMERCE
THE U.S. SMALL BUSINESS ADMINISTRATION
THE EXPORT-IMPORT BANK OF THE UNITED STATES
THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

ON THE ESTABLISHMENT AND OPERATION OF THE
U.S. EXPORT ASSISTANCE CENTERS

This agreement defines responsibilities and coordinating functions of the U.S. Department of Commerce, the U.S. Small Business Administration, the Export-Import Bank of the United States, and the United States Agency for International Development, in establishing and operating fifteen U.S. Export Assistance Centers. (For purposes of this MOU, the four are referred to as "the agencies.")

The mission of the U.S. Export Assistance Centers (USEACs) is to increase the number of successful U.S. exporters and entries into new markets, promoting job creation and the international competitiveness of U.S. industry. The integration of U.S. Government (USG) trade finance and export counseling assistance and the combining of agencies' efforts will enhance USG productivity, performance and ability to service U.S. business export assistance needs. USEACs will provide local export communities with a single point of contact for federal export promotion and trade finance programs.

Fifteen sites are established and are operating: Baltimore, Maryland; Miami, Florida; Chicago, Illinois; Long Beach, California; Atlanta, Georgia; Boston, Massachusetts; Cleveland, Ohio; Dallas, Texas; Denver, Colorado; Detroit, Michigan; New Orleans, Louisiana; New York City, New York; Philadelphia, Pennsylvania; Seattle, Washington; and St. Louis, Missouri.

This agreement also defines the cost allocations for establishing and operating the USEACs and the methodology for interagency reimbursement.

BACKGROUND

This agreement is entered into under the joint project authority of the Department of Commerce (15 USC Sec. 1525). The concept of an export assistance center that integrates international marketing and trade finance assistance for exporters originated with recommendations in the Trade Promotion Coordinating Committee's (TPCC) Report, entitled Toward a National Export Strategy, U.S. Exports = U.S. Jobs, Report to the United States Congress, September 30, 1993; the 1992 Export Enhancement Act, Title II (15 USC Sec. 4721(b)(8) and (9)); and Section 22 of the Small Business Act (15 USC Sec. 649). The four federal agencies that provide these services, U.S. Department of Commerce (DOC), the U.S. Small Business Administration (SBA), Export-Import Bank of the United States (Eximbank), and the United States Agency for International Development (USAID) agreed to consolidate federal export promotion and export finance resources to provide seamless delivery of export promotion and trade finance assistance in local business communities.

The Attachment to this MOU indicates current participating agencies and FTE in each USEAC and will be modified as changes occur and are agreed upon by the agencies. (At the signature date of this MOU, DOC and SBA will staff each of the 15 USEACs, Eximbank is participating full time in four USEACs, and AID is participating in one). Service delivery provided by Small Business Development Centers (SBDCs), the Service Corps of Retired Executives (SCORE), Certified Development Companies, and other SBA resource partners will be the responsibility of SBA. Service delivery provided by "City/State" program representatives will be the responsibility of Eximbank.

STRATEGIC PLANNING AND IMPLEMENTATION

Participating agencies (defined in this MOU as the agencies providing full-time staff to a particular USEAC, as set forth in the Attachment) agree to coordinate the establishment of each of the eleven new USEACs through interagency working groups under which designated representatives are charged with coordination and implementation of specific tasks within timetables established by the working groups. Participating agencies specifically commit to taking all actions necessary to open the USEACs by the agreed-upon date. Key working groups include: senior policy working group, interagency MOU, leasing and logistics, communications, finance and administration, personnel, public relations and marketing, and training.

The interagency working groups will incorporate pertinent information from evaluations of the original four sites in developing planning and management tools for all sites, such as:

- o Milestones and timelines for systems integration and project management;
- o USEAC Strategic Plan Guidance for use in establishing annual operating and program plans for each site;
- o Marketing Plans that include internal and external marketing strategies for the goals, objectives, and operations of the USEACs;
- o Performance measures to evaluate USEAC ability to meet goals of promoting exports and providing client satisfaction;
- o Streamlined, harmonized reporting systems reflecting goals for all agencies;
- o Procedures for expedited decision-making to resolve outstanding issues.

Participating agencies in each USEAC agree to provide ongoing and expedited cooperation to support the USEACs for five years after this agreement has been finalized provided funds and FTE are available. This includes identifying and resolving problems, monitoring performance (operational and programmatic), and participating in periodic reviews of operations.

SITE MANAGEMENT

One agency will serve as the "Lead" agency (see Attachment) at each site. The lead agency assumes the management role for the site's collectively planned short- and long-term program objectives and activities; physical operations of the premises; and property control and inventory. The lead agency is responsible for ensuring that the USEAC opening and operations are consistent with the letter and spirit of the TPCC recommendation: integrating local staff to service U.S. business, and building collegial and collaborative working relationships with local partner agencies in each USEAC will agree among themselves as to lead positions in each of the 15 USEACs.

Decision-making relating to site management is vested in the lowest/most local unit; therefore, leadership and implementation responsibility is specifically assigned to local USEAC managers rather than Washington-based managers. The designated representative (Site Director) from the lead agency has decision authority at the site, with no diminution of that authority should an agency have a local district office to whom they must report. In the event of an impasse, however, decisions can be appealed to the Senior Policy Working Group in Washington, D.C.

LEASING & LOGISTICS

Participating agencies agree that DOC will obtain all leasing contracts and rents, which will be shared through Reimbursable Agreements as described under the section "Financial Management Allocations Methodology."

Participating agencies will agree on floor plan designs and placement in each site.

FINANCE AND ADMINISTRATION

Participating agencies provide and maintain management oversight of issues and activities relating to:

- o Site-specific personnel, compensation and benefits;
- o Payroll services;
- o Training funds;
- o Travel funds;
- o Health-unit costs.

To simplify complex administrative and financial arrangements and enable the sites to operate efficiently and seamlessly, one agency, DOC, will serve as the "Servicing Agency." DOC will provide, or acquire and pay, according to an individual Reimbursable Agreement with each participating agency, shared costs for the following services:

- o Space and GSA rent charges;
- o Procurement of telephone equipment and line requirements;
- o Monthly telephone service charges and long-distance services;
- o Purchase of equipment, in addition to the equipment that will be brought on-site by participating agencies;
- o Purchase of computers, peripherals, two NTDB subscriptions per site, and line connection for E-Mail to USI, in addition to the equipment and software that will be brought on-site by participating agencies;
- o Costs incurred from operating the USEAC, not agency-specific, marketing efforts, including printing of stationery and brochures;

- o Costs associated with the development and implementation of joint training sessions;
- o Costs associated with training the USEAC staff on the DOC computer system;
- o Purchase of supplies and services that are needed in support of routine operation of the site, including: general publications and subscriptions; maintenance agreements for leased or purchased equipment; equipment repair; expendable computer supplies;
- o U.S. mail postage costs, excluding bulk mailings for fee-generating events, the cost of which will be included in the event budget and paid by the co-sponsors;
- o Costs associated with the transportation and shipment of things, such as shipment of computer replacement equipment or parts, including GSA contract commercial overnight mail service, domestic service.

FINANCIAL MANAGEMENT ALLOCATION METHODOLOGY

All costs for each USEAC (except personnel, compensation and benefits, travel, training, and the cost of pagers where applicable) will be allocated to and shared by participating agencies on a staffing commitment FTE basis. When executed, the reimbursable agreement mentioned herein, and not this MOU, shall be deemed to amount to an obligation and commitment of funds as these terms are understood in federal appropriations law. *If permanent FTE positions are added or deleted, the percentages will be adjusted at the beginning of the first and third quarters of each fiscal year.* FTE staffing commitments listed in the Attachment reflect current FTE in each USEAC and will be modified as changes occur and are agreed upon by the participating agencies.

The following opening costs for each site will be treated as operating expenses for reimbursement purposes, and will be charged on an FTE basis among those agencies participating in the particular site: all furniture and equipment essential to commencing operations (e.g., telephone installation and equipment, fax machine, photocopier, postage machine; computer equipment including software, cabling, and peripherals); initial subscriptions for two NTDB subscriptions; computer training; lease start up costs; and initial supply of paper, envelopes letterhead and stationery.

Opening ceremony costs will be divided equally among those agencies participating in the particular site. DOC will be reimbursed for these costs through an independent Reimbursable

Agreement. Costs include, but are not limited to, the following:

Promotional Items

Invitations & envelopes
EAC information kit folders
Opening ceremony programs
Inserts for information kits
Frames photos/Agency heads
Banners
Plaques
EAC logo lapel pins
Certificates of appreciation
Poster boards
Photographer

Logistical Items

Communications-mobile phone calls
A/V equipment
Podium
Postage for invitations
Distribution costs/Promotional items
Travel for advance of openings
Travel/HQ meeting to task force
Rental of Reception/Conference Rm

EAC brochure, information kit folder and banner costs will be shared equally by participating agencies. Eximbank will initially fund costs and be reimbursed by each agency.

Each agency is responsible for its own or affiliated resource partner costs, as appropriate, for travel, lodging and per diem. All non-DOC participants (SBA, Eximbank, SBDCs, Score, CDC, etc.) will pay DOC \$333 per participant for expenses incurred in development and production of joint EAC training. Eximbank agrees to the sum of \$10,000 to cover the training expenses for 33 City/State participants. Costs will be reimbursed through an independent Reimbursable Agreement. DOC will be responsible for all other costs related to the joint training.

Opening costs will be covered in an independent Reimbursable Agreement.

Costs for each USEAC will be shared by participating Federal agencies based upon level of participation, and defined in a Reimbursable Agreement. This agreement shall establish a bi-annual Servicing Fee, payable to DOC as Servicing Agency. The fee will be based upon the Participant Ratio (PR) defined as a fraction representing the number of resident agency employees divided by the total number of resident federal employees. For example, if a SEAC with 4 DOC, 2 SBA, and 1 FTM employee, ratios would be 4/7, 2/7 and 1/7 respectively. The Servicing Fee would be set as follows:

$$\begin{aligned}
 & (PR) \times (\text{Rent/Lease Monthly Charges}) \\
 & \quad + \\
 & (PR) \times (\text{Estimated Monthly Utility and} \\
 & \quad \text{Other Charges paid on a monthly basis}) \\
 & \quad + \\
 & (PR) \times (\text{Estimated monthly small purchase,} \\
 & \quad \text{procurement and associated recovery} \\
 & \quad \text{costs})
 \end{aligned}$$

Estimates would be based upon available actuals, past actuals from comparable sites and ITA or RASC input where helpful.

Following the close of the 2nd Quarter of each Fiscal Year, and again at year's end, a Servicing Fee Review will be conducted to:

- (1) Determine if estimated components of the monthly fee require adjustment. An adjustment would be authorized if actual expenses to date of review deviate by more than 5% from Fee estimate, or if one or more factors (e.g. Lease adjustment, new maintenance contracts, etc.) so dictate. Adjustments of this type would require agreement by all participants.
- (2) Adjust the Participant Ratio to reflect staffing changes.
- (3) Fix any additional ad hoc fees due to the Servicing Agency for unanticipated major investments or other expenditures benefiting all participants (e.g. copy machines, furniture, etc..) and agreed to by all federal participants at time of obligation. Such fees would be separately billed via SF-1081s.

Any cost or cost-sharing issues not clearly covered above will be referred to DoC for resolution... if readily possible, to The Financial Working Group if needed.

Each participating agency will sign a Reimbursable Agreement with the Department of Commerce's International Trade Administration (ITA) for the operating obligation/expenditure of funds for the USEACs in which it is participating. The annual budget for each USEAC should be established by submitting an interagency fiscal plan to be approved by participating agencies at each site. The Servicing Agency will initially obligate/expend funds for the USEACs and will be reimbursed by the other participating agencies, in accordance with conditions stated in the Reimbursable Agreement (form ITA-237). All pre-occupancy costs paid for by a USEAC agency other than ITA will be prorated in accordance with the preceding paragraph.

PERSONNEL

Participating agencies will assign staff to each site, as

specified in the Attachment, and retain authority to determine appropriate personnel systems. Employees will be subject to their agency's personnel policies, procedures, and regulations.

Employees will continue to perform duties outlined in their agency's position descriptions and performance plans. Participating agencies will add a USEAC addendum to existing agency positions and the personnel evaluation process, indicating a requirement for general cross-functional competencies and individual performance that directly contributes to the performance of the site. The addendum will make clear the importance and priority associated with effective operation and implementation of the USEACs and demonstrate each agency's commitment to the TPCC recommendation.

Agencies agree that an employee's participation in the USEAC will serve to enhance the employee's career and not be a detriment to career progression, and agencies will apprise employees of the benefits of USEAC participation accordingly.

The participating agencies acknowledge that in the case of SBA staff assigned to the USEACs that, beyond initial screening efforts to ascertain the needs of businesses contacting the USEACs, SBA's mandated focus is on serving small businesses in compliance with the Small Business Act. SBA's primary mission at the USEAC will be to deliver its trade finance programs to the small business community. It also will assist small businesses begin the process of entering the global marketplace through its network of resource partners such as the SBDCs and SCORE. Similarly, with respect to USAID, the participating agencies acknowledge USAID's mandated focus concerning development and restrictions on USAID regarding the overseas promotion of certain types of activities as appear in the Foreign Assistance Act and other related laws.

TRAINING

Agencies will develop a joint training prototype for new USEAC personnel incorporating evaluations from prior training and experience from the first four USEAC participants. Each agency will ensure that the appropriate staff is available to serve as students, training facilitators and presenters.

Training sessions will incorporate exercises that will build or enhance the skills necessary for all members of the USEAC to provide seamless delivery of programs and services to the exporting communities.

Participating agencies will share the costs involved in the training sessions, except travel costs, through Reimbursable Agreements. This is to be done on a pro rata basis.

COMMUNICATIONS

DOC will purchase telephone equipment and arrange for installation. Decision-making for new systems will consider experience gained from the first four sites.

Participating agencies will coordinate computer needs so that each site has a computer system that includes the same level of automation to work and support the USEAC program operations.

DOC will purchase cabling and other ancillary elements; provide network assistance needed to ensure compatibility among DOC's Banyan server and SBA's and Eximbank's networks; and provide necessary training in the operation of the LAN and all software contained therein, including E-Mail.

DOC agrees to provide CIMS enhancements, within the overall framework of the current system. DOC will also provide ongoing technical computer support for the existing USEAC systems through a Systems Administrator (SA) on site, a Regional Automation Coordinator (RAC) at the regional level, and the Office of Information Systems (OIS) Hotline in Washington, D.C.

PUBLIC RELATIONS AND MARKETING

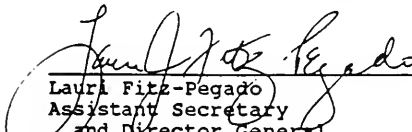
Participating agencies will develop an operational name for the one-stop shops; design a logo, stationery and promotional brochures; and assist with the opening ceremonies and external marketing of the USEACs.

Site Directors will develop and implement local marketing plans.

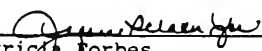
TERMS OF AGREEMENT

Participating agencies agree that this Memorandum of Understanding shall be effective for five years after this agreement has been finalized provided funds and FTE are available. Termination of this agreement will occur 90 days after written notice by the Secretary of Commerce, the Administrator of the U.S. Small Business Administration, the Chairman of the Export-Import Bank of the U.S., or the Administrator of the U.S. Agency for International Development, or by mutual agreement of the same four officials. This MOU may be terminated at any time by the mutual consent of the agencies concerned.

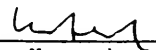
Nothing herein is intended to conflict with current individual directives. If the terms of this agreement are inconsistent with existing directives of any of the agencies entering into this agreement, then those portions of this agreement determined to be inconsistent shall be invalid; but the remaining terms and conditions of this agreement not affected by the inconsistency shall remain in full force and effect.


 Laura Fitz-Pegado
 Assistant Secretary
 and Director General
 U.S. & Foreign Commercial Service
 U.S. Department of Commerce


June 17, 1986
 Date


 Patricia Forbes
 Acting Associate Deputy Administrator
 for Economic Development
 U.S. Small Business Administration

July 16, 1986
 Date


 In A. Kamarck
 President and Chairman
 Export-Import Bank of the United States

July 17, 1986
 Date


 Larry Byrne
 Assistant Administrator for Management
 U.S. Agency for International Development


 Date

PILOT U.S. EXPORT ASSISTANCE CENTERS

PROGRESS REVIEW
EXECUTIVE SUMMARY

December 1994

U.S. Department of Commerce
Small Business Administration
Export-Import Bank of the U.S.

Introduction

A Progress Review of the four pilot EACs (Baltimore, Chicago, Long Beach and Miami) was conducted to examine the current state of development and to scrutinize administrative and management operations as well as program and service delivery. The Review team evaluated the degree of integration achieved to date, assessed the value-added benefits to clients, identified areas of weakness that need closer attention, and established benchmarks for future operations. Comments on the draft report were solicited from Site Directors, US&FCS Regional Directors and US&FCS site managers.

Methodology

A Progress Review of the four pilot U.S. Export Assistance Centers (EAC) is one of many facets of implementing the entire EAC network. The Progress Review was developed by an interagency team from the Department of Commerce (US&FCS), the Small Business Administration (SBA) and the Export-Import Bank (Eximbank). The purpose of the Progress Review is to assess the level of integration among the three (in Long Beach, four including U.S. Agency for International Development) agencies comprising the EACs.

The information gathered in this process is being used to further improve the delivery of services to clients, to increase integration with state and local partners, and to redress administrative and operational issues that necessarily arise in such an extensive undertaking. The Progress Review was designed to collect information on the successful aspects of the EACs, as well as the less successful aspects, with a prescription for corrective action. Information is being applied not only to improving the four pilot offices, but also for the implementation of the next phase of the new EAC network.

The Progress Review team spent two intensive days at each office. To ensure a comprehensive and uniform review of the pilots, they developed a set of "progress review cards." The cards included 17 aspects of operation, including programs/services and administrative/management topics. Each aspect was rated on a scale of 1-5 to show the level of integration achieved to date. On this scale, "1" represents a pre-EAC level of integration and "5" represents an ideal level of integration.

The team asked each Site Director to submit an updated Summary Performance Forecast showing activity at the site during the first 6-8 months of operation. They also gave site managers (the senior ranking representative of each agency) a set of review cards prior to the team's visit and asked them to provide their own confidential assessments of the office's progress. The Summary Performance Forecast and the site managers' confidential

assessments were submitted to the Review team upon arrival at the site.

The team conducted separate interviews with Site Directors, site managers, EAC staff, clients and partners. They also held meetings with the entire staff.

The team created a separate list of questions to use in discussions with clients. The questions were geared to assess the quality of service provided by the EAC and the level of integration perceived by the client. Discussions with partners focused on the level of partner involvement with the office and their assessment of the progress of the EAC. Site managers scheduled individual, private meetings with clients; the outside resource partners met together in a single focus group session.

Summary of Progress Review Findings

The EACs are off to a good start. They are in good locations and have well-qualified, enthusiastic staff. The concept of coordinating and co-locating U.S. Government export promotion services to streamline their delivery to business is applauded by exporters, outside resource partners and EAC staff. Staff is beginning to deliver export products and services on a joint basis as never before.

Because the EACs have been open for less than one year, and perhaps because the concept is a new and innovative approach to exporters' needs, the EACs are not yet showing a high number of positive results (e.g., assisting exports to new markets or completing trade finance transactions).

Site Directors and site managers are uncertain of the degree of their interagency mandate and authority and from where the empowerment comes. They are unaccustomed to having as much autonomy and room for initiative as has been given them. Their specific concerns relate to individual performance forecasts and evaluations, budget, procurement, tasking, annual planning and team building.

Coordination and learning works best, public image of streamlined services is enhanced, and managers "buy in" when all agencies are represented full-time in the EAC – and especially when site managers reside on site. The degree of co-location of federal partners varies by site, with Eximbank presence in only two of the sites. Eximbank staffing varies in the offices from co-located staff in Chicago and Miami, to support staff rotating two days a week in Long Beach, to an Eximbank City/State partner located in the same building in Baltimore. Not being co-located negatively effects follow-through, consistency of support, and opportunities to learn from regular contact with staff.

The lack of harmonized territories is confusing and causes conflicts that affect goal setting, partner referrals, joint counseling, turf issues, and measurement of results. Territories vary by agency where US&FCS may be responsible for a certain number of counties, SBA for a specific number of their district offices, and Eximbank for a certain number of states.

RECOMMENDATIONS

1. Ensure EAC staff understand their mission.
2. Increase communications between the Senior Working Group and site directors through conference calls and meetings.
3. Address concerns about each agency's commitment and priorities, and the effect on the success of the EAC concept.

Provide full-time Eximbank representative in each EAC, either by permanent employees or by Eximbank city/state partners.

Reduce or eliminate Eximbank insurance processing at EACs.

Cross-train EAC staff on SBA programs, if SBA staff is not able to participate in joint counseling and outreach.

Delegate SBA lending authority to the EACs.

Address problems regarding the perception that Long Beach's priority is trade finance transactions rather than aggressive promotion and marketing of federal trade programs.

4. Ensure each EAC has adequate focus on integration, team building, internal communications, and training.

Hold regular site meetings for site managers and for the entire staff. Include the following on meeting agendas: policy; goals; administrative issues; and development of a shared database of resources that can be used for marketing, referrals and joint programming.

Conduct joint counseling by two or more agencies for targeted companies with a need for both marketing and financing assistance.

Utilize joint counseling as a cross-training tool.

Conduct formal cross-training with other EAC partners following the pre-opening training.

5. Clarify roles relating to supervision, direction, formal evaluation, and responsibility of the EACs.

Clarify US&FCS relationships with regional directors, district directors, and DEACs.

Clarify SBA relationships with regional directors and district directors.

Resolve US&FCS conflicts/confusion between the Long Beach EAC and the Los Angeles District Office. (One recommendation is that the Director of the Los Angeles District Office move to the EAC and be the Director of both offices).

Ensure each staff member's individual performance plan includes specific goals related to the EAC, not only for their individual agency.

6. Complete jointly-drafted, site-specific, strategic plans separate from agency action plans.

Provide central guidelines for content of strategic plans that will be common to all EACs, while allowing site-specific goals and objectives.

7. Define and harmonize territory covered by EAC.

8. Provide central marketing assistance.

Develop a professional brochure for all EACs, allowing for inclusion of site-specific information.

Utilize seminars, media interviews, and newsletters for marketing.

9. Brief site directors and site managers on the budget including: how and by whom it is formed; how to budget as part of the annual strategic plan; who is the point of contact for budget questions; which expenditures are appropriate, and what are procurement practices of each agency.

10. Provide improved telephone systems where necessary. Presently some are not capable of efficiently handling incoming and outgoing calls and messages.
11. Ensure receptionists have adequate understanding, background and time for efficient screening, referrals and information dissemination.

Ensure receptionists are not taken away from their duties to perform other administrative duties.

Include receptionists in pre-opening training.

Provide receptionist with continued formal and cross-training.

12. Routinely monitor and assess the results/successes of each EAC.

Separate data collection so results/successes attributable strictly to the EAC can be measured.

Conclusion

Site Directors and the Senior Working Group need to review the recommendations, decide which are appropriate for action, and take appropriate action.

Attachment 1

**EAC PROGRESS REVIEW TEAM
SITE VISIT PLAN****Part I - Team and Site Managers**

- A. Team reviews site's Summary Performance Forecast results to date. Site Managers should be prepared to provide documented evidence to support performance data.
- B. Team reviews the Site Managers' confidential assessments of the EAC's progress.

Part II - All-Hands Meetings

- A. Team leader for that site will go over the purpose and methodology for the Progress Review.
- B. Team leader will open the group discussion by providing comments on Team findings from the review of the Summary Performance Forecast and Site Managers' assessments.
- C. Group Discussion, Q&A

Part III - Exporter and Partner Meetings

- A. Site managers are responsible for scheduling meetings with appropriate partners and exporters.
- B. Exporters: team should meet with both the *marketing and finance* people. The goal is to meet with at least six companies. The Team will pair off, and each pair will meet with three companies for one hour each.
- C. Partners: team should meet with those organizations with which the EAC works closely. This will be an open discussion (similar to the All-Hands meeting) with Site Managers present.

Part IV - Close-out

- A. Focus Groups: opportunity for Team and staff to talk in a more intimate situation without Site Managers present
 - small, interagency groups of 1-4 staff per Team member
- B. Site Manager Review: opportunity to discuss/clarify findings
 - Review Team and Site Managers only

AGENDADAY ONE

8:00 Arrive at EAC

8:30 Team reviews Summary Performance Plan data

Site Managers respond individually to Progress Review Cards

10:30 All-Hands Meeting

lunch break

2:30 Exporter Meeting (company's marketing and/or finance people)

3:30 Exporter Meeting

4:30 Exporter Meeting

dinner - Team working session

DAY TWO - sequence/timing to be determined by individual sites

- Team Meeting 0.5 hours
- EAC Partners Meeting 2.0 hours
- Focus Group or Individual Staff Meetings 2.0 hours
- lunch - Team working session
- Final Team meeting with Site Managers - this is the *final* session of the Progress Review.

TEAM SCHEDULE

September 22 & 23 - Long Beach

September 26 & 27 - Chicago

October 3 & 4 - Miami

October 6 & 7 - Baltimore

Team Leader - Bill Schrage

Team Leader - Grant MacKinnon

Team Leader - Jean Smith

Team Leader - Christine Topoulos

DONALD A. MANZULLO
CHAIRMAN

EVA CLAYTON, NORTH CAROLINA
RANKING MINORITY MEMBER

Congress of the United States
House of Representatives
104th Congress
Committee on Small Business
Subcommittee on Procurement, Exports, and Business Opportunities
B-303 Rayburn House Office Building
Washington, DC 20515

September 28, 1996

The Honorable Lauri J. Fitz-Pegado
Assistant Secretary and Director General
U.S. and Foreign Commercial Service
International Trade Administration
Department of Commerce
14th Street and Constitution Avenue, N.W.
Washington, D.C. 20230

Dear Lauri:

Thank you for taking the time to answer the questions submitted by the Subcommittee on the U.S. Export Assistance Center (USEAC) network. I want to take the time to follow up on one question.

In one of the initial questions, there was an error in fact, which you accurately pointed out. However, I believe the general thrust of the original question is still valid.

You claimed that "export actions" by the U.S. & Foreign Commercial Service (US&FCS) increased 80 percent while staff allocations within USEACs were cut by 20 percent. According to the President's FY 1996 and 1997 budget requests, the International Trade Administration (ITA) employed 2,336 Full-Time Equivalents (FTEs) employees in 1994, 2,328 in 1995, 2,330 in 1996 and 2,376 are requested for 1997. These figures imply a two year freeze and a request for a two percent increase. As you well know, the ITA with the Commerce Department contains four divisions -- the US&FCS, Trade Development (TD), International Economic Policy (IEP), and Import Administration (IA).

Your answer to the Subcommittee's initial question pointed out that the US&FCS employed 1,331 people in 1995 but dropped to 1,227 in 1996. Because of an ITA-wide hiring freeze, there were really only 1,212 Full Time Equivalents (FTEs) in 1996, which is approximately a 9 percent, not 20 percent, difference.

Your letter further explains that you are only counting the domestic network of approximately 345 FTEs, of which 225 are International Trade Specialists. Subtracting the two figures, 120 must be managing International Trade Specialists. In addition, your letter expands upon the answer to explain that the US&FCS started 1995 with 201 International Trade Specialists, which by the time of August, 1995

further dropped to 183. From these two figures (225 staff allocations in 1995 vs. 183 actually in the field by August, 1995), you roughly calculated your 20 percent figure. I have a series of follow-up questions to further clarify the record.

- 1) Please explain to the Subcommittee the difference between a practicing and a managing International Trade Specialist.
- 2) Please explain why you excluded managing International Trade Specialists in the domestic field network from the calculations.
- 3) Why didn't you compare the actual number of International Trade Specialists in the field (201) in 1995 with the actual number in 1996 (183) as opposed to staff allocations, which contained 24 hoped-to-be-filled vacancies, in 1995 (225) with the actual number in the field (183) in 1996? In other words, are you not using two different baselines to make your 20 percent claim when it is in fact only a 9 percent difference in real personnel out in the field?
- 4) Was there any expansion of the foreign network of the US&FCS with additional staff resources during this same time period? Please give the Subcommittee the FTEs for the foreign network. If there was an expansion, please explain the rationale for that decision in the context of the dwindling domestic network.
- 5) If the US&FCS decreased its employment and the overall levels at ITA were stable, then it appears on the surface that at least one or all the other divisions within ITA must have increased personnel at the expense of the US&FCS domestic field network.
 - a) Is that an accurate impression?
 - b) Please provide the Subcommittee with the employment levels (FTEs) at TD, IEP, and IA for each of the last three years. Please further separate between field and headquarters-based staff if appropriate. The Subcommittee wishes to examine how many FTEs in each of these other divisions of ITA are in the field or are Washington-based.
 - c) If there were increases in FTEs at the other divisions of ITA, please explain the rationale for those decisions in the context of a smaller US&FCS.

Thank you for taking the time to answer these additional questions for the record. Please respond by October 25, 1996.

Sincerely,



Donald A. Manzullo
Chairman



UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington DC 20230

DIRECTOR GENERAL OF THE U.S. AND
FOREIGN COMMERCIAL SERVICE

November 1, 1996

The Honorable Donald A. Manzullo
Chairman, Subcommittee on Procurement, Exports
and Business Opportunities
Committee on Small Business
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I appreciate your continued interest in the Commercial Service and your desire to develop a clearer understanding of the resources we have at our disposal, and I apologize for the delay in getting this response to you. In the Commercial Service we understand the budgetary pressures that agencies throughout government currently face, and we have tried to modernize, streamline and generally improve our services to make up for stagnant resources. In the long run, however, nothing can replace the hands-on assistance that our commercial experts provide to American businesses through our offices in the domestic and overseas fields.

I hope that the attached response answers your questions about our staffing levels in the Commercial Service, as well as those in other parts of the International Trade Administration. As always, I welcome any further questions you have about the Export Assistance Centers or any of our other programs.

Sincerely,

Lauri J. Fitz-Pegado

RESPONSES TO QUESTIONS FROM CHAIRMAN MANZULLO

1) Please explain to the Subcommittee the difference between a practicing and a managing International Trade Specialist.

I apologize for any confusion caused by my previous reference to "managing" and "practicing" international trade specialists. I used these terms to differentiate between those international trade specialists who spend 100% of their time working with business clients to generate export actions and those who serve either as managers or as support staff. We currently have 183 non-supervisory or "practicing" international trade specialists. We also have 123 FTE that we previously categorized as "managing" international trade specialists. In fact, this number consists of the following:

- **34 senior managers in the domestic field**, including four regional directors, 14 USEAC directors and 16 Directors of our larger District EACs. With the exception of the four regional directors, these supervisors are required to maintain client lists and generate export actions, at least 50% of the level required for the individual non-supervisory trade specialists under their supervision.
- **55 trade assistants and trade reference assistants** who provide administrative and program support, including market research, trade event support and data analysis, to the ninety Export Assistance Centers nationwide.
- **19 administrative staff in the four regional offices** who deal with personnel, admin and budgetary issues for each region.
- **15 headquarters staff** who are involved in management and program development. Since FY 1994 we have reduced the headquarters staff by 46% from 28 FTE to the current level, shifting most of those FTE to our domestic field operations.

2) Please explain why you excluded managing International Trade Specialists in the domestic field network from the previous calculations.

While many of our supervisory trade specialists work directly with clients to generate export actions, they do so as a complement to their primary duties as managers. Our support staff, who were originally grouped under the term "managing" trade specialists, perform little of the direct counseling that generates export actions. Given the limited counseling role these two groups have, we felt that the non-supervisory trade specialists, those who dedicate 100% of their time to client counseling, served as the best benchmark for assessing our effectiveness in terms of export actions.

3) Why didn't you compare the actual number of International Trade Specialists in the field (201) in 1995 with the actual number in 1996 (183) as opposed to staff allocations (225), which contained 24 hoped-to-be-filled vacancies? In other words, are you not using two different baselines to make your 20 percent claim when it is in fact only a 9 percent difference in real personnel out in the field?

In FY 1995 we had 201 FTE on board in non-supervisory International Trade Specialist positions, 11% below our programmed level of 225. In FY 1996 we had 183 FTE on board in non-supervisory International Trade Specialist positions, 19% below our programmed level of 225. You are correct in noting that our actual numbers only dropped by approximately 9%, but given the fact that we opened nearly twenty new offices during that time, we felt it important to highlight the fact that we have achieved increased production while operating at nearly 20% below the staff levels it was determined we needed to adequately staff this expanded network.

4) Was there any expansion of the foreign network of the US&FCS with additional staff resources during this same time period (FY 1995 - 96)? Please give the Subcommittee the FTE for the foreign network. If there was an expansion, please explain the rationale for that decision in the context of the dwindling domestic network.

American Foreign Service Officers (FSOs) and Secretaries, Foreign Service Nationals (FSNs), and part-time intermittent or temporary direct hires (PIT appointments) utilize FTE overseas. Currently there are approximately 707 FTE in overseas positions. This is down by 103 FTE since the total overseas FTE levels peaked in January 1995. The reductions occurred in the FSN and PIT FTE levels. The FSN level is down by 63 FTE, and we have terminated all 44 PIT appointments. Foreign Service Officer and American Secretary FTE have increased by four. We have been able to offset some of these losses through the increased use of Personal Services Contractors. Although this mechanism is not as desirable as permanent hires, it does allow us to compensate somewhat for the loss of permanent positions.

Although there is considerable downward pressure on FTE, the foreign network continues its effort to build-up its American officer corps in response to the importance placed on developing our market positions in the Big Emerging Markets. We have established and are filling 14 new American officer positions, as follows: China (7), Vietnam (2), Indonesia (1), Brazil (2), Mexico (1) and Argentina (1). The FTE for these additional positions have been drawn from elsewhere in the overseas field.

5) If the US&FCS decreased its employment and the overall levels at ITA were stable, then it appears on the surface that at least one or all the other divisions within ITA must have increased personnel at the expense of the US&FCS domestic field network.

a) Is that an accurate impression?

This is *not* an accurate impression. As indicated in the tables below, both authorized and actual FTE levels have been declining in the other ITA units. Between FY 1994 and FY 1996, the authorized FTE for TD fell by 6 (1.5%), IEP by 18 (8.45 %), and IA by 11 (3.37%). During the same time, the actual FTE levels have dropped even further: TD has declined by 29 (7.13%), IEP by 20 (9.7%), and IA by 40 (13.7%).

While US&FCS authorized FTE actually increased from the FY 1994 level of 1,266 to the FY 1996 level of 1,281, US&FCS' actual FTE declined by 78 (6.03%) over that time from 1,294 to 1,216. Authorized and actual FTE for US&FCS declined much more precipitously between FY 1995 and FY 1996. Our authorized FTE dropped from 1,331 in FY 1995 to 1,281 in FY 1996, and our actual FTE fell by 118 (8.8%) from 1,334 to 1,216 during that time.

Due to the November 1994 hiring freeze, it became impossible to hire staff from outside of the US&FCS to fill domestic and overseas field office positions. Staff was transferred from US&FCS Headquarters in Washington, DC to the field. In fact, between FY 1994 and FY 1996, 28 staff members were permanently transferred to domestic and overseas field offices.

b) Please provide the Subcommittee with the employment levels (FTE) at TD, IEP, and IA for each of the last three years. Please further separate between field and headquarters-based staff if appropriate. The Subcommittee wishes to examine how many FTE in each of these other divisions of ITA are in the field or are Washington-based.

The following chart shows both authorized and actual FTE from FY 1994 to 1996.

c) If there were increases in FTE at the other divisions of ITA, please explain the rationale for those decisions in the context of a smaller US&FCS.

There were no increases in authorized or actual FTE for ITA units between FY 1994 and FY 1996.

Trade Development (TD) - FTE History

Fiscal Year	Authorized FTE	Actual FTE	Field (Actual)	Wash, DC-Based (Actual)
1994	410	407	-0-	407
1995	404	391	-0-	391
1996	404	378	-0-	378

International Economic Policy (IEP) - FTE History

Fiscal Year	Authorized FTE	Actual FTE	Field (Actual)	Wash, DC-Based (Actual)
1994	213	207	-0-	207
1995	198	202	-0-	202
1996	195	187	-0-	187

Import Administration (IA) - FTE History

Fiscal Year	Authorized FTE	Actual FTE	Field (Actual)	Wash, DC-Based (Actual)
1994	299	293	-0-	293
1995	305	275	-0-	275
1996	288	253	-0-	253

DONALD A. MANZULLO
CHAIRMAN

EVA CLAYTON, NORTH CAROLINA
RANKING MINORITY MEMBER

Congress of the United States
House of Representatives
104th Congress
Committee on Small Business
Subcommittee on Procurement, Exports, and Business Opportunities
B-363 Rayburn House Office Building
Washington, DC 20515

August 20, 1996

James P. Morris
Regional Director of the Southeast Office
Export-Import Bank of the United States
Post Office Box 590570
Miami, FL 33159

Dear Jim:

Thank you for taking the time out of your busy schedule on July 25 to give the Subcommittee an "insiders" look into the perspective of the Export-Import Bank of the United States (Ex-Im) at the Miami U.S. Export Assistance Center (USEAC). I want to commend you and the rest of the Miami USEAC office on your work in moving the direction of the delivery of federal export assistance programs toward a more seamless web. As everyone at the hearing recognized, services to our nation's exporters have been enhanced.

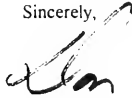
I wanted to follow-up on my initial inquiry, mostly directed to Ms. Mary Joyce of the Small Business Administration in Chicago but also open to you, at the hearing where I asked those who work at the USEACs to come up with a list of items you need to help you do your job better. I hope that you had some time to think about this, and please send me your thoughts on this topic.

Others testified at the hearing about changing staff performance evaluations and instituting a unified customer and an expenditure tracking system. Do you believe these reforms will produce measurable results in terms of solidifying the federal export promotion programs even further at the Miami USEAC? Does the Miami USEAC already have the Lotus Notes system? If not, when is it planned that the Miami USEAC procures this system? Do you think this software system will help your efforts, noting that Ex-Im initially "strongly recommended its Goldmine system as a viable alternative," according to Ms. Lauri Fitz-Pegado's statement?

In addition, the Inspector General (IG) of the Commerce Department listed some site-specific concerns at the four pilot USEACs. Regarding Miami, the IG commented that the Miami USEAC director runs the site on a consensus management basis, where the IG "did not get the feeling that the site director is the clear authority for the USEAC."¹ Do you feel this is a fair or accurate statement of the current situation? In your opinion, is the consensus management style a problem?

Finally, if you have any further thoughts that you would like to add to the formal hearing record either from you or other individuals who work at the Miami USEAC, please feel free to send along any written statements or enclosures to the address on the letterhead. Please respond by September 20, 1996.

Sincerely,



Donald A. Manzullo
Chairman

¹ Inspection Report No. IPE-7130, "U S Export Assistance Centers Offer Reason for Optimism, but May Fall Short of Expectations," Office of Inspector General, U.S. Department of Commerce, March, 1996, p. 23.



EXPORT-IMPORT BANK
OF THE UNITED STATES

September 27, 1996

The Honorable Donald Manzullo
Chairman, Committee on Small Business
Subcommittee on Procurement, Exports and Business Opportunities
B-363 Rayburn House Office Building
Washington, DC 20515

Chairman Manzullo:

Thank you for your kind letter of August 20 regarding my testimony at your hearing on the U.S. Export Assistance Centers (USEACs). I also appreciate your solicitation of my input for ideas that would help make those of us who work in USEACs do our jobs better. Please find below a list of some suggestions and my thoughts on each.

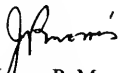
1. **Staff Performance Evaluations** : Performance Appraisals should be evaluated by all of the agencies staffing the various USEACs. Currently we are in the process of setting up a system in which other agency staff can provide input for employee evaluations.
2. **Unified Customer/Expenditure Tracking Systems**: Customer tracking is now being done manually while budgetary expenditures are being followed by the individual agencies under their own systems. It is quite worthwhile to pursue an automated system to track customers and a consolidated budget system to follow USEAC expenses. The USEAC agencies have assigned technical specialists to evaluate alternate systems. Because of the nature of Ex-Im Bank's business, we are requiring that the customer tracking system protect the confidentiality of information submitted by our customers.
3. **Training** : All personnel assigned to the four original USEACs attended an intensive two-week seminar on each of the various agency export programs. Because of staff turnover, many of the new staffers are unfamiliar with the current array of programs. In the short term, another one or two-week training session needs to be scheduled, while a permanent training program needs to be developed for the long term. Such a program will better enable USEAC staff to fulfill the needs of our current and future customers.

Chairman Manzullo
Page 2
September 27, 1996

4. **Management style in Miami** : The consensus management style works well in the Miami USEAC. It provides the necessary flexibility needed to run an organization containing staff from several entirely separate agencies. Consensus management combines the talents of our various agency professionals so that better outreach and customer service can be achieved

Once again Chairman Manzullo, thank you for your interest in the USEAC program. As Ex-Im Bank's Regional Director in the Miami USEAC, I appreciate the opportunity to comment on issues concerning the USEAC system in general and the Miami office in particular. Should you have any more questions, please do not hesitate to contact me or Ex-Im Bank's Congressional and External Affairs Office at (202)565-3230.

Sincerely,



James P. Morris
Regional Director

DONALD A. MANZULLO
CHAIRMAN

EVA CLAYTON, NORTH CAROLINA
RANKING MINORITY MEMBER

Congress of the United States
House of Representatives

101st Congress

Committee on Small Business

Subcommittee on Procurement, Exports, and Business Opportunities

B-105 Ragnorn House Office Building

Washington, DC 20515

August 20, 1996

Mary N. Joyce
International Trade Specialist
U.S. Small Business Administration
Suite 2440
55 West Monroe Street
Chicago, IL 60603

Dear Mary:

Thank you for taking the time out of your busy schedule on July 25 to give the Subcommittee an "insiders" look into the perspective of the Small Business Administration (SBA) at the Chicago U.S. Export Assistance Center (USEAC). I want to commend you and the rest of the Chicago USEAC office on your work in moving the direction of the delivery of federal export assistance programs toward a more seamless web. As everyone at the hearing recognized, services to our nation's exporters have been enhanced.

I wanted to follow-up on my initial inquiry to you at the hearing where I asked you to come up with a list of items you need to help you do your job better. I hope that you had some time to think about this, and please send me your thoughts on this topic.

Others testified at the hearing about changing staff performance evaluations and instituting a unified customer and an expenditure tracking system. Do you believe these reforms will produce measurable results in terms of solidifying the federal export promotion programs even further at the Chicago USEAC? Does the Chicago USEAC already have the Lotus Notes system? If not, would that software package help you do your job better?

Finally, if you have any further thoughts that you would like to add to the formal hearing record either from you or other individuals who work at the Chicago USEAC, please feel free to send along any written statements or enclosures to the address on the letterhead. Please respond by September 20, 1996.

Sincerely,



Donald A. Manzullo
Chairman

Xerox Center
55 West Monroe Street
Suite 2440
Chicago, Illinois 60603



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October 3, 1996

Honorable Donald A. Manzullo
Chairman
Subcommittee on Procurement, Exports and Business Opportunities
Committee on Small Business
B-305 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Manzullo

Thank you for the opportunity to testify before the Subcommittee about the Small Business Administration's (SBA) role at the Chicago U.S. Export Assistance Center (USEAC). In response to your follow-up letter to the hearing requesting USEAC needs, the SBA continues to be fully committed to the USEAC network and the services it provides. Thank you for the vote of confidence in the USEAC project expressed at the hearing.

We at the USEACs ask for your continued support for this network of export services particularly pertaining to full funding for the program. SBA's budget submission to the Congress for this program was \$3.106 million which includes salaries and benefits for USEAC personnel. In the recently passed Omnibus Appropriations Act for Fiscal Year 1997, the appropriation for SBA's USEAC program was \$2.5 million, well short of the amount requested. We look forward to working with you in the next Congress to ensure this vital export network of services will receive adequate funding to enable its continuation.

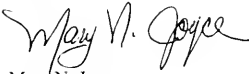
The SBA has been an active partner in the Trade Promotion Coordinating Committee's (TPCC) efforts over the past four years to improve services and programs to assist small business exporters. This year, the SBA contributed to the 1996 TPCC National Export Strategy Report to Congress, "Toward the Next American Century: A U.S. Strategic Response to Foreign Competitive Practices" particularly with regard to export finance for small businesses. Although a copy of the report will be forwarded to you within the next week, I would like to share with you now some of the accomplishments and initiatives for small business exporters contained in the report.

A major highlight of this year's report is a chapter dedicated to small business. This chapter focuses on the accomplishments of the TPCC-member agencies in improving their programs for small businesses. The SBA worked diligently with other TPCC agencies, particularly the Department of Commerce and the Export-Import Bank, to improve the delivery of trade finance to small business exporters. This was accomplished through the harmonized Export Working Capital Program of SBA and the Export-Import Bank and the establishment of the U.S. Export Assistance Center network.

In particular, we would like to bring to your attention a refinement of the Export Working Capital Program (EWCP) mentioned in the small business chapter. In consultation with you, the staff of the House Small Business Committee and other interested members and staff, SBA plans to develop this EWCP refinement which would enable commercial lenders without in-house international trade expertise the ability to make export loans to their small business customers. Using this new tool, lenders will not need extensive experience with export financing or international trade to make loans to small businesses. In its final form this new tool will be made available electronically to thousands of lenders across the country, particularly those already participating in SBA's 7(a) program. In addition, this program would reduce loan processing turnaround time and significantly reduce paperwork.

The SBA is committed to continued progress in improving access to capital for small business exporters. We look forward to working with you on this new project and are available to meet with you and your staff at your convenience. We appreciate your support for USEAC resource needs and are grateful for your interest in the Chicago USEAC and the USEACs nationwide. Thank you again for your sincere interest in supporting our efforts to help more small businesses export.

Sincerely,



Mary N. Joyce
Senior International Trade & Finance Specialist
U S Small Business Administration
Chicago U S Export Assistance Center

Rockford Register Star, July 16, 1996

Export business gets easier

■ **With grand opening:**
The Export Assistance Center will help area firms get help from local and national services.

By **GEORGETTE BRAUN**
The Register Star

ROCKFORD — Area companies should find it easier to start exporting now that federal and local services have been combined to offer one-stop shopping.

But challenges remain for manufacturers eager to increase their export business, U.S. Rep. Don Manzullo, R-Egan, said Monday at the grand opening of the Rockford District Export Assistance Center.

For example, local manufacturers that supply Caterpillar Inc. will lose out if federal loan guarantees don't soon make their way to the Peoria-based company for a China dam project, Manzullo said. The \$30 billion hydroelectric project is the largest in history, he said.

In May, the Export-Import Bank said it wouldn't make loan guarantees because environmental concerns hadn't been answered. Manzullo said if the bank doesn't act again in favor

of the project by Labor Day, "U.S. exporters will have little or no chance at winning any contracts because of the heavy involvement of other nations."

Bergstrom Manufacturing Co. of Rockford makes ventilating parts and TC Industries in Crystal Lake makes blade tips for Caterpillar's earth-moving equipment.

Of nearly 1,000 local manufacturers, 30 percent export. Area exports increased 18 percent between 1993 and 1994, according to the latest available U.S. Department of Commerce figures.

Despite export difficulties, Manzullo said government and business need to continue to work together to open markets that will provide better jobs.

Groups such as the Rockford Local Development Corp., a public/private partnership, is part of the export network being tied closer together through the export assistance center.

One of the services the development corporation provides is to help small- to medium-sized exporting companies get loans they couldn't obtain through conventional banks because their risk is too high.

"We help them put together financial packages for equipment or to

Export Assistance Center

■ **What:** Export and trade finance services of U.S. Department of Commerce, the Small Business Administration, the Export-Import Bank and local services, such as the Rockford Local Development Corp.

■ **Where:** 515 N. Court St., at the Rockford Area Chamber of Commerce and Council of 100 office.

■ **More information:** Call James Mied, director, or Denise Wood, the council's international trade specialist, at 987-8123.

supplement" other loans, said Sanders Howse, executive director of the group.

Exporting will be a highlight today in Washington, with the House of Representatives expected to pass a rewritten Export Administration Act, the main legislation that governs export laws. The Senate is considering a similar version.

WORLD TRADE

Federal export assistance programs are improving, GAO report says

• *However, agency urges more teamwork between centers and a better client-tracking system.*

JOURNAL OF COMMERCE STAFF

WASHINGTON — The U.S. government is improving its export assistance to small and midsized companies, but more remains to be done, government inspectors told Congress last week.

The General Accounting Office, an independent agency that tracks federal programs, reported that the government's

export assistance centers appear to be giving U.S. exporters "substantially increased access to the full range of federal export promotion services."

The centers, first established in January 1994 and now operating in 15 cities, are jointly staffed by Commerce Department, Small Business Administration and Export-Import Bank representatives. These "one-stop-shops" advise U.S. exporters on all U.S. government export promotion and finance services.

But, the GAO found, center officials "did not consistently work as a team... Individuals at certain centers were reluctant

to recommend the services of another agency... because they were unfamiliar with that agency's performance."

The GAO also faulted the

The centers appear to be giving U.S. exporters 'substantially increased access to the full range of federal export promotion services.'

GAO report

centers for lacking an integrated, computer-based client-tracking system, to assure that exporters receive the services they need. Commerce has one system for tracking clients; the SBA and Ex-Im Bank have others. Flawed accounting systems further hamper operations, the GAO said.

The Commerce Department's Office of the Inspector General told Congress that the centers had gotten off to a somewhat rocky start given inadequate resources, poor training of staff and management gaps. But it cited "moderate progress" in overcoming those problems.

Commerce, the SBA and Ex-Im Bank are responding to the GAO's and Inspector General's findings by creating, among other things, an accounting system and exporter-tracking system for the centers, a Commerce official said. The centers are facilitating a sharply higher number of export sales, she said.

ENTERPRISE

Small Companies' Drive to Boost Exports Has Created New Jobs, Survey Says

By STEPHANIE N. MEHTA

Staff Reporter of THE WALL STREET JOURNAL

Small business's export drive is paying off for companies, and boosting U.S. job creation, a new study shows.

In a survey to be released today, 50% of small and midsize manufacturers who export said their sales to foreign customers have increased in the last two years. About 17% of the exporting manufacturers surveyed by the accounting firm Grant Thornton said growth in exports had prompted them to hire new workers.

The survey looked at the exporting activity of 255 manufacturers with \$10 million to \$500 million in annual sales. Numerous companies of this size and smaller have started to export, or sharply increased their export efforts, in recent years.

Small companies with a stronger commitment to exporting — those with exports accounting for at least 10% of annual sales — were more likely to experience growth in exports: Some 76% of such manufacturers say exporting sales have grown in the last two years.

Foreign Sales Beget Foreign Sales

The Grant Thornton survey suggests that once small companies develop confidence and skill at exporting, they are likely to increase foreign sales. "Once they get over the psychological hurdles and get their first shipments overseas, they can start to take advantage of foreign opportunities," says Stephen M. Chipman, a director of international services for Grant Thornton.

Maddox Metal Works Inc., a Dallas manufacturer of equipment used in snack-food processing, says exports now account for about 65% of the company's \$18 million in annual sales. Five years ago, exports accounted for about 45% of annual sales, which totaled \$10 million. The company says it has increased foreign sales through repeat business to foreign companies that are expanding snack-food operations, and has also entered new markets, such as Brazil, Peru, Hungary and China.

"We're seeing a lot of growth," says

Sammy Maddox, president of the company. In the last three years, he says, the company increased its factory work force 25% to 135, largely due to its rise in exports.

Premium Prices on Products

Many small manufacturers may also see higher profits as a result of their sales to foreign markets, suggests Christine Sorg, international development manager at American Electrical Power Co., a Columbus, Ohio, utility system that sponsors a program that assists small exporters. In some new markets where small U.S. manufacturers have little competition, companies can charge premium prices for their products. This more than offsets costs associated with exporting, such as tariffs, she says.

As a result, Ms. Sorg says, the companies she works with pay their employees some 15% more than companies that do not export. And sales at these small exporting companies typically grow at a rate of about 14% a year, compared with a growth rate of about 2% to 3% at comparable nonexporting concerns, Ms. Sorg adds.

"The U.S. is a very mature market," Mr. Chipman of Grant Thornton notes. "The opportunities for midsize manufacturers [to increase sales] are in new, overseas markets."

To be sure, many small companies in the U.S. don't export because they lack products that are salable to foreign markets. But many small manufacturers simply avoid exporting because they cannot afford to devote resources to developing overseas markets, or fear the unknown of dealing with foreign agents and distributors. According to the Commerce Department, small companies now generate about 30% of total U.S. export volume.

Seasoned exporters say that as small American companies generate more sales overseas, the infrastructure for selling and distributing U.S. products is improving. For example, 44% of small and midsize exporters surveyed by Grant Thornton attributed growth in exports mainly to improved distribution channels.

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